



**University of Azuay**

**Faculty of Law**

**School of International Studies**

*Analysis of the tariff and not-tariff measures sustained in the "National Plan for the Good living 2009-2013 " and its relation with the safeguards implemented in the year 2009, for the Economist Rafael Correa in his Government of the Citizen Revolution.*

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**Work Graduation previous to obtaining the Bachelor Degree in International Studies, minor in Bilingual foreign trade.**

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## **Abstract**

With the objective to achieve the economic, technological and social development, Ecuador Government has adopted trade policies, which principally have focused to encourage domestic production and to promote the country exports. Most of the countries that have achieved economic development, without doubt have applied this type of policies. While the applied measures obey each country needs, the objectives are similar and most of the successful cases have served as model for developing economies.

Trade policies applied by Ecuador are included in the National Plan for the Good Living 2009-2013. It was proposed by the Government, in order to achieve economic development, a change in the production model and a social restructuring that gives the same rights and opportunities to the entire population.

## **Resumen**

Con el objetivo de alcanzar el desarrollo económico, tecnológico y social, el Gobierno del Ecuador ha adoptado políticas comerciales, las cuales principalmente se han enfocado en incentivar la producción nacional y promocionar las exportaciones del país. La mayoría de países que han alcanzado el desarrollo económico sin duda han aplicado este tipo de políticas. Si bien las medidas aplicadas obedecen a las necesidades de cada país, los objetivos son similares, y muchos de los casos exitosos, han servido de modelo para economías en desarrollo.

Las políticas comerciales aplicadas por el Ecuador constan dentro del Plan Nacional para el Buen Vivir 2009-2013, el cual fue propuesto por el Gobierno con el fin de lograr el desarrollo económico, un cambio en la matriz productiva y una reestructuración social que brinde a toda la población los mismos derechos y oportunidades.

## **INTRODUCTION**

Some trade policies are considered as emergency measures, applied by a government in an unfavorable economic situation. One of the cases to apply these measures is when there exists an imbalance in the Trade and/or Payments Balance, allowing through these regulate and even improve the economic situation of the country. Among the most used measures are the Foreign Investment, Tariff and Non-Tariff measures, and other international cooperation programs and national level capacitation.

It is important to note that most countries with financial problems, applied their currency devaluation. However, having Ecuador adopted the dollar of the United States as its currency, it has not the authority to devaluate it to fix the imbalances of the Commercial Balance.

In this situation the application of the Commercial Tariffs is the most appropriate; because in combination with the government decisions to reach economic development, it is possible to achieve commercial growing and therefore, the economic and social development.

The strategic application of certain trade policies has contributed of several countries economic and technological development. To understand better the purpose of these policies, it will start with an introduction of the tariff measures. Then it will be mentioned the main measures used by the Ecuadorian government and its results; and finally, it will be mentioned the applied measures of 4 different region countries. It should be note in their beginnings the selected countries had primary economies and their situation was totally devastated.

This work is focused on a comparison of the measures taken by the countries considered as economical models, and the measures applied by the Ecuadorian government as part of the National Plan for the Good Living 2009-2013. Through this comparison is intended to determine the effectiveness of the trade measures application.

## **Chapter No. 1: Tariff and non-tariff measures as strategy of domestic industry protection**

The government intervention in the country economic development has always generated great debates. There is a part that agrees for the government to intervene with the application of economic policies, and there is also the opposition who believes in the market self-regulation, without the government intervention.

In last years, it has been notice that governments have intervened through the application of different policies, in order to achieve economic, industrial and particularly social development. Foreign trade policies are considered as strategies which besides to search for economic development, promotes the technological advance, generates the industrial growth and the export diversification.

The government intervention is important for the application of trade policies, because trough the support that it provides to small, medium and large sized companies; it can get efficient results in relation of national industrial development and exports. Also, it is important to emphasize the cooperative relationship between the public and private sector that contributes with the economic and industrial growth.

To understand better the foreign trade measures, it is important to know what the tariffs are. In a worldwide perspective tariffs are considerate as taxes which are represented in a specific value or percentage, and are paid by the country imported or exported goods (Definición de arancel). The purpose of the tariff application is to prioritize domestic consumption, without limiting the imports; so it can gives to the consumer the freedom of preference and choice, through a price competition that offers a variety of products and brands.

To facilitate customs processes in Ecuador, there is used a tariff guide known as the National Tariff Book, which is structured as follows:

- Sections, chapters, tariff headings and subheadings; where every covering product is mentioned.
- Notes for each section and chapter; that explain if there is any requirements to import each product.
- Tariff tributes; which show the tax percentage that pays each subheading.
- International agreements and its respective liberations.

Images 1 and 2 show an example of the National Tariff Book structure:

**Image No. 1. Example of the sections and chapters division of the National Tariff Book.**

<p style="text-align: center;"><b>SECTION No. 1</b> <b>LIVE ANIMALS AND ANIMAL KINGDOM PRODUCTS</b></p> <p><b>Notes.</b></p> <ol style="list-style-type: none"> <li>1. In this section, any reference to a genre or a particular animal species also applies, unless otherwise specified, the young animals of this genus or specie.</li> <li>2. Unless otherwise specified, any reference in the Nomenclature to <i>dry or dried products</i> also includes the dehydrated, evaporated or freeze-dried.</li> </ol> <p><b>Additional Note.</b></p> <ol style="list-style-type: none"> <li>1. In Chapters 1 and 3, the expressions <i>pure-bred breeding, for breeding or breeding industry, to fight and to run</i>, consist of animals considered as such by the competent authorities of the members countries Agricultural Departments.</li> </ol> <p style="text-align: center;"><b>CHAPTER No. 1</b> <b>Live Animals</b></p> <p><b>Note.</b></p> <ol style="list-style-type: none"> <li>1. This Chapter includes all the live animals, except: <ol style="list-style-type: none"> <li>a) Fish, crustaceans, molluscs and other aquatic invertebrates, of tariff heading 03.01, 03.06 6 03.07;</li> <li>b) Micro-organisms cultures and other products of the tariff heading 30.02;</li> <li>c) Animals of the tariff heading 95.08.</li> </ol> </li> </ol> <p style="text-align: right;">Fifth Amendment of the Armonized System, 2013 <b>1.</b></p>
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**Source:** Arancel Nacional del Ecuador, Quinta Enmienda 2013.

Ecuador INTEGRATED IMPORTS TARIFF		RESTRICTIONS AND PRIOR AUTHORIZATIONS VALUE ADDED TAX (VAT) DOMESTIC TARIFF RATE % AD-VALOREM CIF PHYSICAL UNIT TARIFF HEADING AND DESCRIPTION		SYSTEM INTEGRATION (% PAYABLE)													
				NOTES	VENEZUELA (CM)				MERCOSUR				ALADI				PA
					AR	BR	PY	UY	Obs.	CL	CU	MX	Obs.	AR BR MX CU			
01.01	Horses, donkeys, mules, alive																
	-Horses																
2 0101.21.00	Purebred breeding	u	15 12 0070	0	0	0	0	0		0	15	15		13.8			
0101.29	Others													13.2			
1 0101.29.10	To run	u	20 12 0070	0	0	0	0	0		0	20	20		18.4			
5 0101.29.90	Others	u	20 12 0070	0	0	0	0	0	0001	0	0	20		17.6			
						3.2			0002					18.4			
7 0101.30.00	Donkeys	u	0 12 0070	0	0	0	0	0		0	0	0		13.2			
9 0101.90.00	Others	u	15 12 0070	0	0	0	0	0	0001	0	15	15		13.8			
						2.4	2.4		0002					13.2			
01.02	Live animals of the bovine species																
8 0102.21.00	Domestic Bovines																
0102.29	Purebred breeding	u	0 12 0070	6001	0	0	0	0	0	0	0	0		0			
7 0102.29.10	Others	u	15 12 0070	0	0	0	0	0	0003	0	0	15	0004	13.8			
	For lida								0.75					13.2			
1 0102.29.90	Others	u	5 12 0070	0	0	0	0	0	0003	0	0	5	0004	4.6			
									0					4.4			
0 0102.31.00	Buffaloes																
6 0102.39.00	Purebred breeding	u	0 12 0070	6001	0	0	0	0	0	0	0	0		0			
	Others	u	10 12 0070	0	0	0	0	0	0003	0	0	5	0004	4.6			
									0004					4.4			
5 0102.90.00	Others	u	5 12 0070	0	0	0	0	0	0003	0	0	5	0004	4.6			
									0004					4.4			
01.03	Live animals of the porcine species																
5 0103.10.00	Purebred breeding	u	0 12 0070	6001	0	0	0	0	0	0	0	0		0			

Fifth amendment of the Harmonized System. 2013
2.0

Before knowing the tariff measures, it will be mentioned Ecuador imports taxes, its classification and its tariff percentage. To enter Ecuador each import has to pay the following tributes, taxes and charges (¿Cuánto se tienen que pagar en tributos por un product importado?, 2012).

- 4

- **VAT.** The Value Added Tax is also managed by the Internal Revenue Service, and has a rate of 12 percent applied on CIF value + import tariff value+ FODINFA + SCT. Additionally, to calculate VAT it has to considerate other tariff charges which can be applied as part of a safeguard measure; for example, an Ad-valorem or compound tariff.
- **FODINFA.** The Development Fund for Children is administrated by the Family National Institute INFA and has a set value of 0,5 percent.

For tariff application in Ecuador, there is the following products classification:

**Chart No.1. Ecuador Tariffs Classification.**

IMPORTS GOODS CLASSIFICATION	% TARIFF
Processing degree and / or agricultural products	15 y .20
Half-finished products, raw materials and inputs	10
Raw materials and the capital inputs goods	5 y 0
Cars	35
Trucks	10

**Source:** Todo Comercio Exterior. Arancel de Importaciones del Ecuador;

**Elaborated by:** María de Lourdes Cárdenas.

As Chart No. 1 shows, a customs duty between 0 and 35 percent depending on the type of products is applied by Ecuador. It is important to emphasize that Ecuador as being part of Regional Integration and other International Agreements, it changes the percentages according to the established in the agreements.



## **1.1 Tariff Measures**

One of the international trade policies used by the Governments is the application of tariff measures, which is considered as permanent measure and is applied in order to protect the national industry. According to the World Trade Organization WTO, the tariff measures are applied when there is an imbalance in commercial and/or payments balance, and these are based on tariffs imposition of a country imports or exports. The main objective is to achieve economic development through imports restriction, the promotion of national products and the exports increase.

The General Agreement on Tariffs and Trade GATT, to which Ecuador is subscribed, allows its members when they present economic difficulties cause by the international trade; to implement an economic development program through the limitation or higher tariffs over the imported goods with the condition that they do not affect the rest of countries members (Resolución 466, 2009).

The current Code of Production, Trade and Investment COPCI, in Article No.72 established that are duties and attributions of the organism related to trade policy (COPCI, 2010) the following:

- a) To formulate and approve general and sectorial policies and strategies, in international trade, export promotion and designate executing agencies;
- c) To create, modify and remove tariffs;
- j) To adopt rules and measures to counter unfair international trade practices, that affect domestic production, exports or in general, the commercial interest of the country;
- k) To consider the reports of the Investigating Authority, and adopt trade defense measures according to the national and international current regulations against unfair international practices, or increased imports that cause or threaten to cause injury to the domestic industry;

- l) To approve import quotas or restrictive measures to the international trade operations, when trading conditions, the damage on local industry or economic country circumstances requires.
- q) To defer temporarily the application of general or economy specific sectors tariff rates, as appropriate to the domestic industry or the economic needs of the State;

It should be noted that in the year 2009, it was in effect the Law of Foreign Trade and Investment LEXI, and under the authority of the Foreign Trade and Investment Committee COMEXI, the Resolution No.466 was emitted; which establishes that tariff measures can be applied through the imposition of the following charges:

- **Specific Tariff**

Which is applied through a specific monetary value, determined according the unit weight or volume of the products.

- **Ad-Valorem**

Which is an additional percentage applied to the customs value of the goods.

- **Compound or Mixed Tariff**

They are those that combine the value of specific tariff and the Ad-Valorem value applied to a single product.

The application of the taxes is based on the needs of each industry. As being permanent type measures, it is not established a specific date for its suspension; however, this will depend on the development and evolution of the Government production and technological selected areas.

Certainly, the application of tariff measures is most often used by governments as a tool to reduce imports that affect domestic industry. The most efficient way is the tariffs rise because as paying a high tribute, the price product rises and it is more difficult to be consumed by the population.

To limit the outflow, the resources can be reinvested in the domestic companies' development. At the same time, these offer the national product in an economical and accessible price, and especially of quality, so the international products do not represent a greater competition.

## **1.2 Non-tariff Measures**

The application of non-tariff measures also work as a strategy to protect domestic industry. Certainly, these do not apply any tariff charges; however, these are considered as trade technical barriers by requiring permissions and certifications previous to import. The demand of these previous control requirements is considered necessary for the entry of goods into the country.

Non-tariff measures over restrict imports, incentives the high quality production, so it can be exported high competitive value products. In Ecuador according to Article No.78 of the Code of Production, Trade and Investment COPCI, non-tariff measures can be applied by the Government in the following cases:

- To protect people life, health, security and national security;
- To ensure the preservation of the environment, biodiversity, and the animal and vegetal health;
- When it is temporarily required, to implement measures to correct imbalances of the payments balance;
- To secure laws and regulations compliance, compatibles with international commitments, such as customs controls, intellectual property rights, consumer rights, quality control or products marketing destined for international trade, among others.

Now it will be mentioned the non-tariff measures that are used as a mean to restrict imports, protect domestic industry and stimulate the production of the country.

### **1.2.1 Quality control measures**

Article No. 52 of the Ecuador Constitution establishes that "people have the right to dispose of the goods and services of highest quality and to choose them with freedom, as well as accurate and not misleading information about its content and features" (Constitución de la República del Ecuador, 2008)

The application of this measure has as objective to provide products that do not threaten population health and safety, through the requirements compliance related to the quality of imported goods. In regards to controls, these mostly are apply to products which are intended for use and human consumption as meat, vegetables, clothing and its accessories, etc. The institution responsible for the control of agricultural products and meat quality is the Assurance Quality Agency AGROCALIDAD.

The registration emitted by AGROCALIDAD, is also required for the importers of flowers, cut branches, plants, plant products or vegetable material for species propagation and ornamental plants.

For the control of agricultural products, this institution realizes an Entomological analysis which allows identifying the plagues that can be caused by insects. In the case of the livestock sector, it will be realized parasitological analysis and studies which detected animal health and hygiene problems (Ecuador controla la calidad de los alimentos importados a través de su frontera norte. 2014).

In the case of textiles and accessories, the institution responsible of carrying out the respective controls, is the Ecuadorian Standardization Institute INEN, which through the emission of standards and technical regulations establishes the parameters required for the compliance of quality control.

For example, one of the technical regulations is the clothing and footwear labeling, which procedure has to be carried out in the goods origin country, and certified by an

institution authorized by the Ecuadorian Accreditation Agency OAE. The obligatory detailed information that has to be in the label is the origin country; the composition, and the name of the import company with its respective Unique Taxpayers Record RUC.

Referring to vehicles importation, the inspection certificate will be emitted once to the manufacturer conformity declaration and the gas emission test report were verify [Procedimiento para la obtención de certificado de reconocimiento (Formulario INEN 1) para el control de bienes importados que deben cumplir con RTE INEN O NTE INEN. 2012].

There are other institutions that emit different certificates depending on the type of product; and that must be processed before its import. Some of the institutions are:

- Agriculture, Livestock, Aquaculture and Fishing Department MAGAP, which emits a certificate for pesticides, fertilizers, vegetal ornamentation and propagation or consumption material imports.
- Defense Department, which emits a necessary permission for importers of weapons, munitions, explosives and accessories.
- National Drugs and Narcotic Substances Control Council CONSEP, which emits ratings and licenses for the import, distribution and marketing of controlled substances. Ratings are emitted to natural or legal person, so legally they can import, export, produces, store, market and use these substances in industrial processes. Licenses also are emitted to natural or legal person who authorizes the distribution of medicines that contain controlled substances. These documents have to be renewed every December 31, regardless their emitted date (Certificaciones y/o Licencias).

Resolution 010-2009 of the National Quality Council CONCAL, establishes the procedure for obtaining the recognition certificates, and establishes that all the products listed in Annex I of the resolution 009-2009 emitted by the same institution; have to obtain the certificate before its import. Review resolution 009-2009 to know more about the products of Annex I.

### 1.2.2 Import Licenses

Import licenses are considered as an administrative process, which requires independent documents of those required by customs, to authorize the goods imports. The documents that must be included in order to submit to the licensing process are:

For Natural Person:

- Application to the Industry and Productivity Department MIPRO, which includes subheadings to be imported, and the commercial description with the product brand.
- Copies of the Identification Document and Voting Certificate.
- RUC copy.
- IESS payments certifications.
- SRI tax compliance certifications.

For Legal Person:

- All of the above.
- Certification of the Superintendence of Companies.
- The trademark of the products distribution (usually it is the most delayed, because it needs the brand permission for the product distribution in the country). All abroad documents must be certificated in the respective Ecuadorian Embassy.
- Notarized copy of the legal representative nomination.
- Other documents set out in the rules and regulations of the INEN, which depend on the product type (Obtención de una licencia de importación requiere ahora un trámite físico. 2011).

Products that necessarily need this prior document control are:

- Tires
- Iron
- Refrigerators
- Phones
- Television, etc.

### **1.2.3 Import Quotas**

The application of import quotas is considered as an effective measure to reduce the amount of products entering the country. In Ecuador, quotas are established by the Foreign Trade Committee COMEX, through the power granted by the Organic Code of Production, Trade and Investment COPCI. To restrict imports, it can be applied quotas in terms of value amount and in relation to physical quantities. This measure is usually applied to products that are imported in large quantities.

For the quotas application, it is taken the CIF value of the three years previous imports and it is calculated a percentage determined by the COMEX, which depends on the Ecuador production level of the selected items. In Chapter 2, the application of import quotas will be mentioned with more details.

### **1.2.4 Prohibitions**

In 2003, COMEXI through the Resolution No. 182, established a list of prohibited import products, in order to give the total opportunity to domestic industry. Some of the selected products are (Lista de productos de prohibida importación al Ecuador):

- Salt
- Clothing and footwear
- Used cars
- Varios types of chemical
- Furniture, cabinets and counters
- Incandescentteel spotlights

Used vehicles are part of the prohibit imports, because it tries to eliminate the entry of second hand products that stagnate the country technological development and generate scrap.

### **1.2.5 Anti-dumping measures**

Anti-dumping measures are directly related to dumping cases; which consist in selling products in a lower price than the distributed in the origin country. When this situation occurs, it creates an unfair competition; therefore, the affected Governments have the faculty to apply different measures to protect their economy and national industry.

Emitted in 1994, the sixth Article of the GATT authorizes the imposition of an anti-dumping measure on imports from a certain country, in cases where dumping causes or threatens to cause injury to a domestic industry (Antidumping, subvenciones, salvaguardias: casos imprevistos, etc).

In order to apply anti-dumping measures, it must be demonstrated to the superior institution, in this case the World Trade Organization WTO, that trading prices of the products are lower than normal, and how this situation affects to the domestic industry.

To prove this situation, the WTO suggests 3 alternatives:

- To demonstrate the selling price in the exporting country market.
- To verify the selling price of the product in other countries.
- To make a calculation based on the combination of production costs and profit margins considered normal.

Once the dumping is recognized, the government can implement an anti-dumping measure based on the application of an additional duty. The goal is to reach a price considered normal in the market of the importing country, so it can compete fairly and do not cause damage to the national market.



Anti-dumping measures will be in effect as long as it is necessary to correct the damage caused to some sector of the national production. However, it is necessary considered that the maximum application time is five years counted since its implementation.

#### **1.2.6 Subsidies and countervailing measures**

Subsidies are considered as an economic incentive giving by the Governments to certain productive sectors in order to stimulate its exports. For developing countries, the application of this measure allows them to compete internationally, because it is produced a better quality products and in more quantity. However, it is considered that these measures affect the fair trade and can be of prohibited application for developed countries. World Trade Organization defined the types of damage that can cause subsidies application (Subvenciones y medidas compensatorias):

- To affect a production sector of the importing country.
- To affect to rival exporters when they compete in third markets.

Domestic subsidies can affect to exporters that try to compete in the country market (Ibid). In the case these situations exist, it can be apply the countervailing measures. These ones can be of tariff type, and as anti-dumping measures the maximum application time is five years. The recovery of the affected industry has to be demonstrated in this period time.

According to the agreement of the WTO about subsidies and countervailing measures, there are cases that before imposing this type of measure, it can agree with the exporter which used the subsidies to raise their export prices in such way that it can compete fairly.

### **1.2.7 Sanitary and Phytosanitary measures**

Sanitary and Phytosanitary measures are applied in order to protect animals and food imports of risks arising from the spread of pests, diseases, contaminants, toxins or disease-causing organisms. According to the World Trade Organization sanitary and phytosanitary measures application Agreement, it authorizes to the states members to establish their own restrictive norms as long as they are regulated under scientific principles.

To be applied by a Government, this type of measure will require a certificate request that ensure that products come from free diseases areas, or through the inspection of the products to detect any anomaly. Usually, inspections are carried out to verify the additives or toxic substances that may contain food or beverages, to verify food and animal safety and plants health.

To emit the certification, it has to make a risk valuation, which reviews the following (Acuerdo sobre la aplicación de medidas sanitarias y fitosanitarias):

- To processes and production methods
- The relevant inspection, sampling and testing methods
- The prevalence of specific diseases or pests
- The existence of pest or diseases free areas
- The ecological and environmental conditions, among others.

Similarly, it is made a technical analysis which requests information as:

- Name and address of the manufacturer company
- Product trade name
- Mode of administration and / or dosage of the product
- Formulation type of the product
- Toxicological product level

- Qualitative formula of the product
- Properties product time lapse.

The Public Health Department and its secondary institutions at regional level are the ones who emit this control document. To obtain this, it is necessary to attach the results report of the physical and chemical analysis, the commercial label with the name or designation of the product, the trademark, the number of batch, model or type, net contents, business name and full address of the producer or marketer company, among others (Requisitos y trámites para obtener el Registro Sanitario).

Some of the products that require these certificates are:

- Food
- Medicines
- Medical Devices
- Homeopathic Medicines
- Pesticides, etc.

The following products distributed at national level are exempted from the compliance of sanitary register:

- Food products in their natural state such as fruits, vegetables, honey and other products of agricultural origin which have not go through any transformation process.
- Semi-finished products.
- Bulk grains.
- The raw animal origin: frozen products that has not been subjected to any transformation process and are showed without trademark.
- Raw materials generally produced locally or imported, for its only industry and gastronomy used and in the food processing and meal preparation.
- Daily consumption baked goods and which are traded without a defined package and without a trademark.

As it seems, the process to obtain the respective certificates is complex; however, it is being required by most countries that over looking to reduce imports to encourage domestic production, they look for the health and welfare of their population.

### **1.2.8 Standards and Technical Regulations**

Standards and technical regulations are based on set parameters related to the safety verification of human use and consumption products. The organization that controls the standardization and certification is the INEN.

The rules and regulations mention the features that products, processes and the production methods must comply. Depending on the type of product, it can apply requirements in terms of terminology, symbols, packaging, labeling, etc.

Technical regulations are used in combination with other tariff measures such as quality control, which emit all the requirements that an import product must comply. According to product use, regulations and technical standards are established. It should be noted that the regulations must be strictly enforced, while standards are not obligatory [Procedimiento para la obtención de certificado de reconocimiento (Formulario INEN 1), 2012].

### **1.2.9 Packing Requirements**

It may be mentioned that this measure is related to quality control and sanitary and phytosanitary certification. The reason is because besides imposing a trade barrier, it tries that the imported products are adequate for the use and human consumption. It also seeks to reduce the risk of introduction and spread of pests.

This measure is imposed through the requirement of goods packing. For example, all the wood packing entering to Ecuador must be properly treated and sealed as it is established in the International Standard NIMF-15. According to this regulation, the

wooden packing should be checked (Medidas aprobadas relacionadas con el embalaje de madera, 2002):

- Heat treatment
- Fumigation certification
- The marks and symbols that determine that the packaging has been approved. As well, these have to be legible, permanent and not transferable, and placed in at least 2 noticeable places.
- Other technical requirements.

Goods that arrive the country with packages that do not comply with international standards, will be placed in custody of the Ecuadorian National Customs Service SENAE and the Ecuadorian Agency for Quality Assurance for Agro AGROCALIDAD, for its respective transshipment.

#### **1.2.10 Origin Norms**

According to Article No. 84 of the COPCI, as a non-tariff measure is the origin norms, which request certain parameters on imports in order to determine the customs territory or the origin region of the product.

The authority responsible for verifying the compliance of the certification of origin as a requirement on imports; regardless of the imported customs procedure, will be the Ecuadorian National Customs Service SENAE. To comply with its responsibilities, it can use all the powers given by the Ecuadorian Law and International Conventions, to control imported goods, in this case including the factory production processes verification of the country imported goods (Art.86. Verificación de Origen, 2010).

### **1.2.11 Public Procurement**

Public procurement refers to all proceedings concerning to the acquisition or rent of goods, public works or services including consultancy. At the same time, it is included in the goods procurement the commercial rent with a buy option (Ley Orgánica del Sistema Nacional de Contratación Pública, Art. 6, 2008).

In some cases, public procurement represents a disadvantage to the country, because foreign participants provide their services at lower costs than those offered at the national level, so it injury its development. Article No. 288 of the Ecuadorian Constitution establishes the following (Constitución de la República del Ecuador, 2008):

“The public procurement must comply with criteria of efficiency, transparency, quality, environmental, and social responsibility. It will be prioritized the national products and services, in particular the production from the popular and solidary economy, and from the micro, small and medium sized producers”.

The restriction of public procurement is applied as a non-tariff measured, through the domestic bidders preferences. The parameters that participants must comply as both legal person and institutions of national or foreign origin are established in the Organic Law and the Regulation on Public Procurement.

At first instance, preference is given to domestic participants as they comply with the following issues (Compras Públicas, 2008):

- National good origin. It is accepted when the FOB value of imported goods does not exceed 60 percent of the bid price.
- National origin of a service or work. If the bidder is a natural or legal person domiciled in the country where it operates, and over 60 percent of its offer represents the labor cost, raw materials and domestic inputs.

- Preference margins. A margin of preference not more than 10 percent for national offers in goods, services and works is given. The 15 percent is for national public procurement processes offers that generate competition with small and medium sized foreign companies. And an extra margin of 5 percent preference is given for those offers in which at least 15 percent of the bid value represents the cost of components purchased in the locality where the work is executed.

Similarly, preferences were determined regarding to consulting services. The Article No. 26 of the mentioned Law determines the following (Ley Orgánica del Sistema Nacional de Contratación Pública, 2008):

“The participation of foreign consulting, whether of natural or legal person, will be limited to the camps, activities or areas in which full or partial components do not exists technical ability or experience from the national consulting, determined by the National Institute of Public Procurement”.

To access to the international bidders, Article No. 37 determines that it must exist and certify the technical capacity or national experience absence. However, there will be national preference where it will be requested by a public notification the interest of goods suppliers and domestic services (Ibid). If within a period of 30 days, there are not national participants, then the competition of foreign consultancy service providers will be permitted.

The objectives of these preferences are:

- To provide to the State goods, services, works and consulting with the best quality, price and convenience combination.
- To promote domestic production.
- To include the micro, small and medium sized producers in the economy as the State suppliers.

### **1.2.12 Intellectual Property Rights**

It is important to mention that intellectual property rights are those which are given to people or institutions granted them all the power over their creations. These give to the creator an exclusive right over the use of its work or creation for a certain period (¿Qué se entiende por “derechos de propiedad intelectual”?).

In this context of non-tariff measures; industrial property is the most important, because it protects trademarks and geographical indications which serve to determine the characteristics of a product according to its geographical origin, etc. Through the industrial property protection, it looks for ensuring fair competition and protects consumers by providing the necessary information when choosing their products and services.

The intellectual property measures are mainly applied to the import and distribution of worldwide recognized branded products. For example, if an importer wishes to market Suzuki auto parts, in order to import them, he must submit as part of prior control documents a supplier authorization for the sale of the products concerned under the importer trade name.

### **1.2.13 Previous Inspection**

Previous inspection is defined as the verification of goods before shipment, in order to control the quantity, quality, price, packaging, and avoid commercial fraud. The main objective for the application of this measure is to safeguard national financial interests to avoid unnecessary drain capital. The Government has imposed in some cases the obligation to execute this inspection process before importing, so traders have to hire private companies to accomplish this procedure.



Previous inspection must be carried out in the customs territory of the exporting country; subsequently, the responsible company will emit a certificate to ensure the quantity, quality and all agreements made between buyer and seller contract.

Finally, it is important to emphasize that according to Article No. 82 of COPCI, non-tariff measures mostly applied in Ecuador are:

- Import licensing
- Sanitary and phytosanitary measures
- Standards and Technical Regulations
- Certificate of Origin
- Quality Control

Certainly non-tariff measures are heavily involved in the implementation of trade policy as an instrument to protect domestic industry. These, in many cases, are considered more complex than tariff measures, as they represent various processes that must be done to obtain the corresponding import prior control document.

Non-tariff measures are not only related to imports, as some of these as quality control and sanitary and phytosanitary certificates, are apply to domestic production in order to obtain quality products that participate in the international market.

## **CHAPTER No. 2: FINDINGS ANALYSIS OF THE SAFEGUARDS IMPLEMENTED IN THE YEAR 2009**

Certainly, most industrialized countries have had to apply trade policies to achieve their economic development. Within trade policies are the mentioned tariff and non-tariff measures, which are used as a means to achieve the industrial development of a country. The domestic industry of a country can be defined as the set of small, medium and large sized companies, family associations and independent producers who use the natural and intellectual country resources to produce goods and services to supply the domestic market and to export.

The industry of Ecuador is formed by the exploitation of raw materials such as oil and minerals, seafood such as shrimp and tuna, growing vegetables like broccoli, peppers, hearts of palm, spices like cinnamon, fruits like maracuyá, mango, strawberries, kiwi, uvilla, pineapple, naranjilla; also products such as cocoa, banana, tagua, aromatic and medicinal plants, roses, wood and other products (Exportadores, Compradores). Despite the amount of resources that the country has, because of the lack of technological and industrial development, constantly large quantities are imported which affects directly the domestic production.

According to a study about Ecuador economic and trade strategies, it is considered that there are three obstacles which limit the country economic and commercial development (Estrategias económicas, comerciales y productivas del Ecuador para alcanzar un mejor desarrollo económico y social, 2013 p.3.):

- Single product exploitation. Approximately, 46 percent of the production is divided among non-oil products, being the remaining 54 percent covered by oil exports.
- Focus on one market. The products that are exported by Ecuador go mostly to The United States, Peru, Chile, Colombia, Venezuela, Italy, Spain, Germany, Holland, and Belgium.

- Focus on business ownership. Most companies have few shareholders, so this reduces the innovation and produces the exploitation of a single activity.

The excessive amount of imports and the lack of domestic production are problems that affect the country trade and payment Balance. To equilibrate them, the Government has used trade policies, which are directed to specific products or sectors that have been most affected. Similarly, in the year 2009 the program known as the National Plan for the Good Living 2009-2013 was created, which pretends to change the country productive matrix, so an industrial, economic and social development will be achieved.

This chapter will analyze safeguards and other trade measures implemented by the Government of Ecuador in the years 2009 and 2012, as measures to protect the domestic industry, also a comparison of the Good Living goals will be done; and finally, it will be mentioned the results obtained after the implementation of these measures.

## **2.1 Introduction to safeguard measures**

According to the World Trade Organization, it is established that (Información técnica sobre las salvaguardias):

“Safeguard measures are defined as ‘urgent’ measures related to imports increase of certain products, when such imports have caused or threaten to cause serious injury to the importing member domestic industry”.

For the correct application of safeguard measures, the World Trade Organization has established several parameters which must be followed by member countries. Among these are (Ibid):

- **Conditions.** The safeguards can be applied when it is determined that imports are causing serious injury to a competitor domestic producing industry.

- **Time.** Its application has to be temporary, being one year its minimum term. However, these can be applied for a maximum time of four years, if it is a definitive safeguard measure. These will be liberalized progressively while they are in effect, and according to the results being obtained. It is established that this measure may be extended if there is a research and evidence which show that a certain production sector is still in adjustment process and is necessary to avoid any damage.
- **Damage.** According to the WTO, damage can be of two kinds and the measures implementation depends on them. The first is the serious injury, which is defined as a significant damage to a national production branch. To determine this type of damage, it must be established an investigation of the injured sector where it will be analyzed the rate and amount of imports, changes in the level of sales, the level of productivity, profits and losses, and finally the employment that the sector generates.

The second is the threat of serious injury; in this case, it cannot apply a safeguard measure because it is considered as simply claims or harm possibilities to the domestic industry. So it has to present facts and concrete data to determine the threat existence.

For the application of safeguards, it has been determined that these can be:

### **2.1.1 Definitive Safeguards**

Definitive safeguards are applied when there is a serious damage to the productive sector and it needs to go through a renewal process. In this case, the policy of increase customs duties on the bound tariff and/or the quantitative restriction on imports is applied.

For quantitative restriction, it has to be noted that the amount is not less than the amount of 3 years past imports. As it was mentioned, the maximum time of application of a definitive safeguard is 4 years; however, it can be considered an extension time of 8

years only when there is evidence that despite the initially set time, the affected sector is still in an adjusting process.

The World Trade Organization establishes, for the implementation of this measure a compensation system awarded to the affected exporting members. For example, tariff preferences can be given to imports of products which do not affect mostly to the domestic production, or cooperation agreements can be offered in different interest topics for the affected country.

### **2.1.2 Provisional Safeguards**

The provisional safeguard measures are applied temporarily, according to the damages caused in the productive sector. These generally are applied through tariffs increase and can be applied for the maximum time of 200 days. The Article No. 7 of the Agreement on Safeguards mentions that it cannot re-apply a safeguard measure to a product that has already used it. According to the WTO, it has to wait a period equal to the previous applied measure or a minimum of 2 years.

However, if there are many affected sectors, it is considered the implementation of a measure in the following cases:

- When it has been at least 1 year from the last safeguard application.
- When it has not been applied twice the measure to the same product within a period of 5 years.

Safeguards are the most common trade measure, because its application includes tariff charges and imports restrictions, which provides a great opportunity to the domestic industry to recover and especially to develop; so in long-term it will stop importing and will be able to supply the domestic market with domestic products.

## **2.2 Foreign trade measures implemented by the Government since the year 2009, and its relation with the National Plan for the Good Living 2009-2013.**

Between the years 2008-2009, Ecuador has faced a severe economic crisis caused by dollars excessive outflow, the reducing revenue by lower oil prices and the declining of the remittances. This situation caused an imbalance in the Payments and Trade Balance, because imports quantity was higher than exports which directly injured the domestic industry.

Chart No. 2 shows the behavior of the total imports from the year 2006 to 2008, represented on FOB value.

**Chart No. 2. Ecuador imports growth, period 2006-2008.**

	Trade Balance (1)											
	Metric tonnes and thousand USD FOB value											
	Jan-Dec 2006			Jan-Dec 2007			Jan-Dec 2008			2007-2008 Variation		
	a	B	b/a	a	b	b/a	a	b	b/a	a	b	b/a
	USD value Unit			USD value Unit			USD value Unit			USD value Unit		
	Volume	FOB	Value	Volume	FOB	Value	Volume	FOB	Value	Volume	FOB	Value
<b>Total Exports</b>	<b>28,609</b>	<b>12,728,262</b>	<b>455</b>	<b>27,733</b>	<b>14,321,316</b>	<b>516</b>	<b>27,923</b>	<b>18,489,786</b>	<b>662</b>	<b>0.68%</b>	<b>29.11%</b>	<b>28.23%</b>
Oil exports(2)	150,323	7,544,529	50	139,974	8,328,566	60	142,134	11,672,819	82	1.54%	40.15%	38.02%
Non-oil exports	7,456	5,183,733	695	8,007	5,992,750	748	7,905	6,816,968	862	-1.27%	13.75%	15.22%
<b>Total Imports</b>	<b>10,074</b>	<b>11,279,458</b>	<b>1,120</b>	<b>10,844</b>	<b>12,907,111</b>	<b>1,19</b>	<b>11,345</b>	<b>17,608,949</b>	<b>1,552</b>	<b>4.63%</b>	<b>36.43%</b>	<b>30.40%</b>
Consumer Goods	744	2,584,995	3,473	811	2,901,330	3,578	1,068	3,851,922	3,605	31.77%	32.76%	0.75%
Raw Material	5,426	3,469,307	639	5,946	4,093,484	688	6,193	5,831,336	942	4.15%	42.45%	36.77%
Capital Goods	319	2,829,427	8,867	364	3,319,344	9,121	468	4,501,466	9,622	28.55%	35.61%	5.49%
Fuels and Lubricants	3,584	2,380,875	664	3,723	2,578,324	693	3,613	3,226,259	893	-2.94%	25.13%	28.91%
Various	0	1,414	10,082	0	2,759	12,842	3	13,017	5,075	1093.83%	371.83%	-60.48%
Adjustment(3)		13,439			11,870			184,950				
<b>Trade Balance-Total</b>		<b>1,448,805</b>			<b>1,414,205</b>			<b>880,837</b>			<b>-37.72%</b>	
Oil-Trade Balance		5,163,655			5,750,242			8,446,560			46.89%	
Non-oil Trade Balance		-3,714,850			-4,336,037			-7,565,722			74.48%(4)	

(1) Figures are provisional, reprocessing is performed according to the reception of source documents on foreign trade

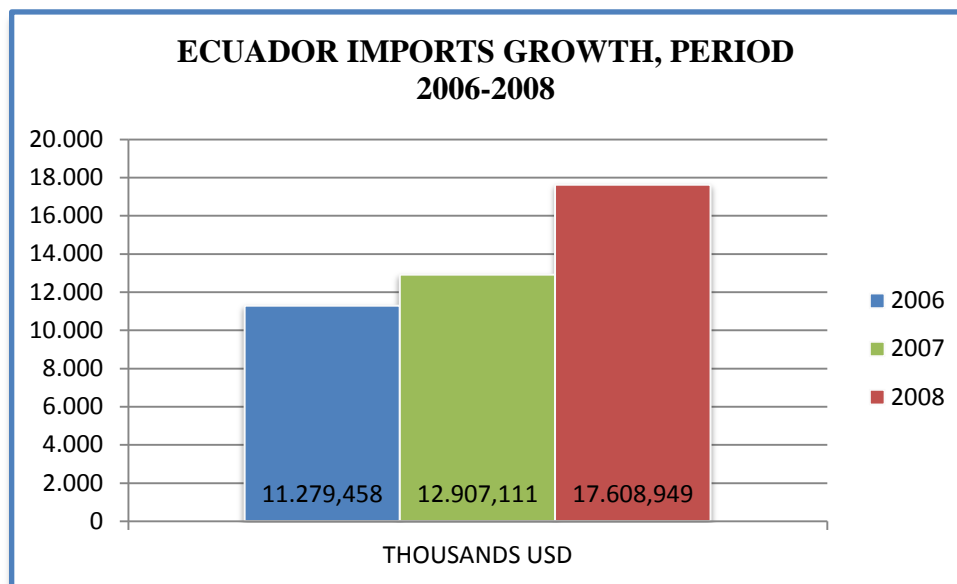
(2) Thousand Barrels Volume

(3) Imports H.J.D.N

(4) This porcentaje measures a trade deficit increase.

**Source:** Banco Central del Ecuador.2009. Evolución de la Balanza Comercial Enero-Diciembre 2008. [Cited on: January 15, 2014] Available at: <http://contenido.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc200812.pdf>

**Graphic No. 1. Ecuador imports growth, period 2006-2008.**



**Source:** Banco Central del Ecuador. Ecuador.2009. Evolución de la Balanza Comercial Enero-Diciembre 2008. [Cited on: January 15, 2014] Available at: <http://contenido.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc200812.pdf>;

**Elaborated by:** María de Lourdes Cárdenas.

As it shows the value of total imports has a representative annual growth, being it a reason to implement trade measures as a mean to reduce the excessive capital outflow and protect the domestic industry.

### **2.2.1 Safeguards applied in the year 2009**

In January 2009, a meeting took place between the Government and a national representative importers group, where it was celebrated an agreement to restrict imports of certain products. The decision was accepted in response to a report emitted by the Ecuador Central Bank, which mentioned a deficit generated in the Payments Balance and recommended to reduce imports in \$ 2.169 million USD (Resolución 466, 2009). It was decided that the instrument to achieve the recovery of the Payments Balance and to improve the productivity of domestic companies, was the application of safeguards. As it was mentioned in the first part of this chapter, safeguards are trade measures imposed



by governments on imports of certain products with the aim of reducing them, encourage domestic production, stimulate domestic consumption and promote exports.

Ecuador joined the World Trade Organization WTO and the General Agreement on Tariffs and Trade GATT celebrated in 1947, which through Article XVIII provides that when a member presents difficulties in his payments balance, it can implement an economic development program and can limit the volume or value of import goods as an emergency measure; with the condition that the established restrictions do not exceed the established limits so it will not affect other countries members. The same Article textually established that participants have the authority to (Art. XVIII, Literal 2.):

- a) Keep in their tariff structure an enough flexibility to be able to grant the tariff protection required for a determined production sector.
- b) Establish quantitative restrictions for payment balance, so it will note the high and stable import demand which may result in the execution of their economic development programs.

Similarly, to join to Regional Trade Agreements through the Decision No. 563 of the Cartagena Agreement, Article No. 95 allows to the member countries to adopt measures to correct the imbalance in their balance of payments. With the Decision No. 389 of the same committee, it is established a regulation for the safeguards implementation, which allows the member countries of the Andean Community of Nations CAN being temporarily exempted from the commitments made in the program of tariff liberalization.

Under these article dispositions, the Government resolves to apply safeguards to certain imports from all countries, including those which have trade agreements and recognize tariff preferences. Through Article No. 11 of the Law on Foreign Trade and Investment LEXI, it is granted the faculty to the Foreign Trade and Investment Committee COMEXI as representative institution for:

- j) To impose temporarily countervailing duties, antidumping, or safeguard measures application to correct unfair practices and anomalous situations in imports which injure to domestic production in compliance with the rules and procedures of the WTO.

With the faculty granted to the COMEXI, on January 19 of 2009 this institution emitted the Resolution No. 466, in which the following was established:

- **Apply an Ad-Valorem charge;** to imports for consumption, being these additional to the established customs duty.

It was established that the percentage of tariff surcharge was 30 and 35 percent. The products have been selected strategically, either because they are at a commercial disadvantage or because they are promising sectors that are part of an industrial development program. Some of the products with recharge were:

- Covered sugar like chocolates and candies
  - Beer made from malt
  - Sparkling wine
  - Whisky
  - Vodka
  - Ron and other hard liquor obtained by distilling and fermenting
  - Wood and plastic furniture.
- 
- **Apply a specific charge,** to imports for consumption; similarly, the charge is in addition to the established customs duty.

For the implementation of the specific charges, it was determined three sectors which were most affected by imports. The first sector was the footwear industry; which specific tariff was set by the value of \$ 10 USD extra per pair of shoes. Among the types of footwear were:

- Shoes with metal toe
- Sport shoes
- Ski Footwear
- Leather footwear
- Other footwear.

The second sector is pottery, which was imposed a surcharge of 10 cents per imported kilo. Within the selected subheadings were the following products:

- Articles of stone, plaster, cement, asbestos.
- Mica or similar materials
- Ceramic products
- Glass and glassware.

The third section was the textile sector, which levied a specific charge of \$ 12 USD per imported kilogram. Some of the products were:

- Cotton clothing
- Synthetic or artificial fibers clothing
- Wool or fine animal hair
- Progressive compression stockings
- Shawls, scarves, mufflers
- Clothing accessories
- Parties, etc.
- **Establish quotas**, limiting the imports value.

Finally, in regard to import quotas, it was established that quotas were applied annually, and its value was set in a 65 or 70 percent of the CIF value of previous year total imports of that product. It should be noted that the percentage was applied to each importer. Among products with import quotas were:

- CKD for vehicles
- Potatoes
- Grapes
- Apples
- Pears
- Cereal Products
- Ovens
- Irons
- Blenders
- Kitchens
- Bicycles

The value of the quotas was fixed under the provisions of COMEXI, and they were reviewed and approved by a delegation from the General Agreement on Tariffs and Trade GATT. Resolution No. 466 mentioned the products list with its respective tariff measure.

It is important to know that some exceptions mentioned in the same resolution were established for the implementation of these measures. It excluded from the application of safeguards the following cases:

- Maquila Regimen
- Industrial Storage Regimen
- Foreign Donations
- Help consignments imports
- Household goods
- Goods for disabled use
- Samples without commercial value
- Passenger Baggage
- Other Imports under the Immunities, Diplomatic Privileges and Franchises Law.

In order to gain more control over the imports restriction, the COMEXI decided to make some modifications to Resolution No. 466. The first modification was made through Resolution No. 469 emitted on February 12 of 2009, which established the following:

**First:** To incorporate to Annex I of Resolution No. 466, the following items with their respective tariff rate.

**Chart No. 3. Annex I of Resolution No. 469.**

NANDINA	Description	% Ad-Valorem Surcharge
9801.00.00.20	Traveler luggage not exempt from taxes	35%
9807.00.00.20	Packets between 4kg and 50kg or \$400 to \$2000 which are shipped by courier.	35%

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad.2009.

Resolución 469 COMEXI. [Cited on: February 18, 2014] Available at:

<http://www.produccion.gob.ec/comexi-2009-2/>

This first modification included the luggage of travelers and the delivery packages, as these represented a new form to import without paying surcharges established under the safeguard measure.

**Second:** it was established to reform Annex II of Resolution No. 466 which included the following heading with its respective tariff surcharge.

**Chart No. 4. Annex II of Resolution No. 469.**

NANDINA	Description	Specific Surcharge
9807.00.00.30	Clothing, apparel and footwear less of 20kg or \$2000 shipped by courier	US\$ 12 per net Kg

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad.2009.

Resolución 469 COMEXI. [Cited on: February 18, 2014] Available at:

<http://www.produccion.gob.ec/comexi-2009-2/>

Finally, it incorporated the following explanatory note, which exempted certain products of the safeguard implementation.

**Chart No. 5. Annex III of Resolution No. 469.**

NANDINA	Description	Explanatory note
1901109900	_ _ _ Others	Except: medicated milk formula for infants with lactose intolerance or allergy to milk protein.
2002900000	_ Others	Except tomato pasta
2007999200	_ _ _ purees and pastes	Except juice concentrates for the industry, bulk imported
3923509000	_ Others	Except flip top plastic covers; and refillable dispenser, type spray of different sizes and security seals, and multilayer squeeze type plastic containers and dispenser cap for Doypack covers composed of 3 parts.

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad.2009.

Resolución 469 COMEXI. [Cited on: February 18, 2014] Available at:

<http://www.produccion.gob.ec/comexi-2009-2/>

A second modification was made on February 19 of 2009, through Resolution No. 470 which included the following:

**Chart No. 6. Annex III of Resolution No. 469.**

NANDINA 675	Description	Safeguard Measures	Observations
1104120000	_ _ Oat	Quota of 97% of CIF	Except: crushed grains, flakes or rolled oats
1806900000	_ Others	% Tariff surcharge	Except: smarties, unconditioned for retail sale
6117909000	_ _ Others	Specific tariff of \$12 per Kg net	Except: pads, collars and cuffs

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad.2009.

Resolución 470 COMEXI. [Cited on: February 18, 2014] Available at:

<http://www.produccion.gob.ec/comexi-2009-2/>

As it was seen, the 3 Annexes of Resolution No. 466 were reformed in this resolution, including oat products to import quotas and an explanatory note which exempts certain products from tariff and specific tariff surcharge. According to the National Tariff Book, the heading 1806900000 includes products from the food industries such as beverages, liquors and vinegar; tobacco and substitutes of produced tobacco. While heading 6117909000, includes textiles and its manufactures (Arancel Nacional del Ecuador. Quinta Enmienda, 2013).

However, after the implementation of these measures, it began a deficiency in domestic production for lack of raw materials and supplies needed for the development of certain goods. In response, the COMEXI emitted the Resolution No. 481 on April 1 of 2009, which eliminated the heading 3923302000 of the Annex II of the Resolution No. 466.

According to the National Tariff Book, this heading contains materials such as plastics, rubber and its manufactures. Through this resolution, it was established that these materials do not pay the specific tariff, so it can continue the import of the required fittings to produce in the country. Similarly, explanatory notes were incorporated in the resolution, where it was exempted the following subheadings:

**Chart No. 7. Annex of Resolution No. 481**

NANDINA	Description	Explanatory Note
2007999200	— — — Purees and pastes	Except: concentrated fruit pulp, unconditioned for retail sale
3926909000	— — Others	Except: pharmaceutical aseptic packaging and roll on balls for deodorant packaging

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad.2009.

Resolución 481 COMEXI. [Cited on: February 18, 2014] Available at:

<http://www.produccion.gob.ec/comexi-2009-2/>

Finally, one of the important modifications was emitted in the Resolution No. 501 of August 13 of 2009, which modify Annex II of the Resolution No. 466. Through it was

incorporated the following explanatory notes, that correspond to the exception of specific tariff application to the imports of raw materials from artisanal sector.

**Chart No. 8. Annex of Resolution No. 501.**

<b>NANDINA</b>	<b>Description</b>	<b>Safeguard Measure</b>	<b>Observations</b>
6217900000	_ Parts	US \$12 per net Kg	Except: manga edges, collars, cuffs and tailoring chest reinforcements, waistband for men trousers clothing
6217100000	_ Clothing and clothing accessories	US \$12 per net Kg	Except: cotton pads coated nonwoven and tailor interior pads

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad.2009.

Resolución 501 COMEXI. [Cited on: February 18, 2014] Available at:

<http://www.produccion.gob.ec/comexi-2009-2/>

It was established for the safeguards implementation one year term; however, if it was demonstrated that the situation of the selected industries did not improve after the application of the same, it could extend the term as long as it is under international standards.

### **2.2.2 Tariff and non-tariff measures applied in 2012**

Although some sectors were benefited because the increase of their production; the level of exports has decreased and the amount of imports has remained high. The following table shows the behavior of imports since the year 2009, in which the safeguard measure was imposed.

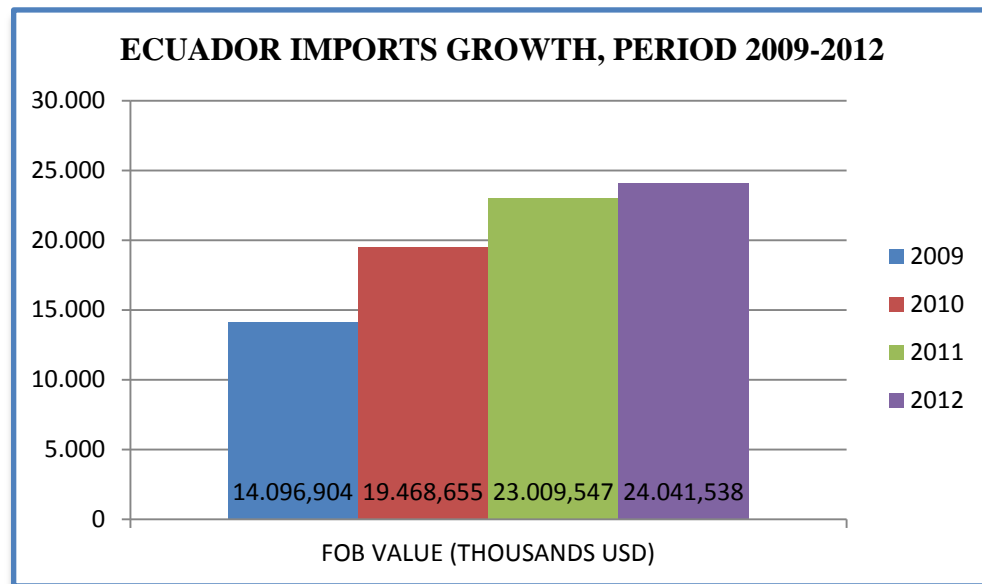


**Chart No. 9. Ecuador imports growth, period 2009-2012.**

	Trade Balance *														
	Metric tonnes and USD FOB value (thousand)														
	Jan-Dec 2009			Jan-Dec 2010			Jan-Dec 2011			Jan-Dec 2012			2011-2012 Variation		
	a	b	b/a	a	b	b/a	a	b	b/a	a	b	b/a	a	B	b/a
	USD value		Unit	USD value		Unit	USD value		Unit	USD value		Unit	USD value		Unit
Volume	FOB	Value	Volume	FOB	Value	Volume	FOB	Value	Volume	FOB	Value	Volume	FOB	Value	
Total Exports	27,348	13,863,058	507	26,628	17,489,928	657	27,311	22,322,353	817	27,91	23,898,734	856	2.2%	7.1%	4.8%
Oil exports**	133,279	6,964,638	52	136,252	9,673,228	71	135,045	12,944,868	96	141,16	13,791,926	98	4.5%	6.5%	1.9%
Non-oil exports	8,831	6,898,420	781	7,678	7,816,700	1,018	8,543	9,377,485	1,098	8,273	10,106,807	1,222	-3.2%	7.8%	11.3%
Total Imports	11,367	14,096,904	1,240	13,716	19,468,655	1,419	14,474	23,099,547	1,590	14,27	24,041,533	1,685	-1.4%	4.5%	6.0%
Consumer Goods	922	3,094,035	3,356	1,052	4,116,470	3,913	1,144	4,742,920	4,145	1,053	4,825,738	4,582	-7.9%	1.7%	10.5%
Raw Material	5,812	4,669,806	804	6,517	5,914,771	908	7,549	7,231,015	958	7,365	7,291,054	990	-2.4%	0.8%	3.4%
Capital Goods	398	3,926,591	9,868	497	5,129,089	10,329	531	5,844,619	11,02	543	6,417,605	11,822	2.3%	9.8%	7.3%
Fuels and Lubricants	4,227	2,338,309	553	5,639	4,042,823	717	5,245	5,086,539	970	5,301	5,441,136	1,026	1.1%	7.0%	5.8%
Various	9	42,715	4,881	12	75,560	6,342	5	40,713	8,034	4	42,207	9,682	-14.0%	3.7%	20.5%
Adjustment(3)		25,449			189,941			63,741			23,798			-62.7%	
Trade Balance- Total		-233,846			-1,978,727			-687,194			-142,804			79.2%	
Oil-Trade Balance		4,626,329			5,630,404			7,858,329			8,350,790			6.3%	
Non-oil Trade Balance		-4,860,176			-7,609,131			-8,545,523			-8,493,594			0.6%	

**Source:** Banco Central del Ecuador.2013. Evolución de la Balanza Comercial Enero-Diciembre 2012. [Cited on: January 15, 2014] Available at: <http://contenido.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc201302.pdf>;

**Graphic No. 2. Ecuador imports growth, period 2009-2012.**



**Source:** Banco Central del Ecuador.2013. Evolución de la Balanza Comercial Enero-Diciembre 2012. [Cited on: January 15, 2014] Available at: <http://contenido.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc201302.pdf>;

**Elaborated by:**María de Lourdes Cárdenas.

As Chart No. 9 shows, the imports value has not declined like it was pretended to achieve equilibrium in the Payment and Trade Balance. To counter this situation, the Government in the year 2012 applied trade measures.

Since June 15, the Government decided to raise tariffs on about 627 headings; some included products considered as luxury goods and other products that can be manufactured in the country. Some products were already included in the safeguards applied in the year 2009.

- **Tariff Measures**

Through the Fifth Amendment of the National Tariff Book, it was included new tariffs on several products as part of the adopted measure. The modifications include about 20

subheadings related to alcoholic beverages and 83 related to the import of televisions, monitors, paper and others. Similarly, it was reformed the institution responsible for measures issuing, being actually the Foreign Trade Committee COMEX.

- **Applying a compound tariff**

Emitted in June, Resolution No. 63 establishes the application of a compound tariff for the alcohol drinks imports. Generally, this product charges a tariff between 20 and 30 per cent, to which it has to add the Ad-valorem set at 1 percent and the specific tariff of 25 cents per each imported gallon. Some of the drinks to which are applied the compound tariff are:

- Beer Malta
- Sparkling wine
- Pisco
- Vodka
- Creams
- Hard liquor as tequila
- Other alcoholic beverages
- In containers with a capacity equal or not exceeding 2 liters
- Other fermented beverages such as cider, mead, etc.
- Ethyl alcohol with an alcoholic degree higher or equal to 80 percent (Resolución 63, 2012).

The same Resolution No. 63 attached an Annex II with a list of products and specifications that need to be modified in the National Tariff Book. One of the modifications is the products included in heading 8528720090 whose specification is 'Others' and includes reception apparatus of television, radio, recording or reproducing sound or image, video monitors and video projectors.

**Chart No. 10. Annex II of Resolution No. 63.**

NANDINA	Subp. ARIAN	Merchandise Details	Unit	Specific Tariff	Ad-Valorme	Observations
8528.72.00	.90	--- Others	u	0	5%	Less than 22 inches
8528.72.00	.90	--- Others	u	USD 73,11 each	5%	23 to less than 32 inches
8528.72.00	.90	--- Others	u	USD 140,32 each	5%	33 to less than 41 inches
8528.72.00	.90	--- Others	u	USD 158,14 each	5%	42 to less than 50 inches
8528.72.00	.90	--- Others	u		20%	More tan 50 inches

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad. 2013. Resolución 63 COMEX. [Cited on: February 20, 2014] Available at: <http://www.produccion.gob.ec/2012-resolucionescomex/>

As it can be seen, it was arranged the application of a compound tariff, where the Ad-valorem represents 5 to 20 percent and the specific tariff is from \$ 73,11 to \$ 158,14 USD, depending on the inch in the case of televisions.

On June 18 of 2012, through Resolution No. 68 a modification related to televisions imports was done. In this, it was mentioned to change the Annex II of Resolution No. 63 including more headings with their respective specifications related to the inches classification.

- **Tariff Surcharge**

In order to encourage domestic industry related to the production of vehicle parts and others, through Resolution No. 64, the Government decided to apply an Ad-valorem surcharge to the followings CKD:

- CKD radio, included in the heading 8527210010
- CKD motorcycles, from headings 8711200010, 8711300010, 8711400010, 8711500010 and 8711900010
- CKD TV from heading 8528720010
- CKD cellphone from heading 8517120010
- CKD DV player from heading 8521909010.

The resolution established that the imported CKD will pay 100% of the bound tariff, and the percentage will decline according the measure of the same assembled product in the country.

- **Non-Tariff Measures**

The application of non-tariff measures is based on Article No. 72 of COPCI, which assigned to the Committee of Foreign Trade COMEX the authority (COPCI, 2010):

f) To issue norms on registrations, authorizations, previous checking documents, licenses and import and export procedures; different to the customs ones, general and sartorial, including the requirements that must be comply, different of the customs procedures.

Similarly, Article No. 396 of the Republic Constitution establishes: “The state will adopt policies and appropriate measures that avoid negative environmental impacts, the State will adopt effective and opportune protective measures”.

- **Import quotas**

As part of the CKD industry promoting, and in complement to the Resolution No. 64, it was emitted Resolution No. 65 which established vehicles CKD import quotas. To know the quotas values, review the Annex of Resolution No. 65.

Similarly, it was assigned to the Ecuador National Customs Service SENA E the control of imports quotas, because if they exceeded the set value, it has to be shipped to their origin country. In the case of the goods that were boarded before the effective date of the mentioned resolution, the SENA E has the obligation to discount the quantities and amounts that have been imported since January 1 of 2012 from the assigned annually quota.

It was established that the term of import quotas was until December 2014, therefore the COMEX and the SENA E have the obligation to modify each year their value, until the measure expiry time is met.

A second resolution was emitted in answer to an Environment Department report, which determined that the emission of vehicles gases increased by 110 percent in recent years. Additional, there is a report emitted by the SENA E that mentions that from January to June of 2012, it was imported around \$535 million USD in products included in the vehicles heading. This amount is equivalent to 80 percent of the total imports done in the year 2011 (Resolución 66, 2012).

With the existence of a large number of vehicles circulating in the country, pollution is even more eminent and vehicular traffic is heavier. In order to restrict the country dollars outflow, to improve the population living conditions and especially to stop the environmental pollution, through the Resolution No. 66 emitted on June 11 of 2012, it disposed to apply an amount and total value restriction to imported vehicles which are included in Annex I of the resolution.

This measure will be in effect until December 31 of 2014, and quotas will be renewed by the SENA E each year. Like the CKD, vehicles which exceed the set value will be reshipped. Additionally, through Article No. 5 of the mentioned resolution, it is commissioned to institutions like the INEN and MIPRO the elaboration of technical norms and certification processes for technical and environmental quality, which must request for the vehicles imports.

It should be noted that this measure has exceptions, which are applied to imported vehicles for people with disability, for officials subjected to the Immunities, Diplomatic Privileges and Franchises Law, to vehicles which are imported for improvement purpose and to be exported, and it finally includes vehicles that are imported within the RENOVA PLAN (Resolución 66, 2012).

This plan is a governmental program created in order to reduce the scrap of the country. Through this vehicles for public use can be renewing without the need of being new, but they will be in good conditions.

Cell phones are another product included in the import quotas. This measure was adopted as an initiative for environmental care; because according to an Environment Department study, the pollution emitted by these equipment are considered as waste which containing lead, mercury and other environmental harmful elements (Resolución No. 67, 2012).

Similarly, the recycling of these products is encouraged, because it is estimated that there are 16 million lines in Ecuador and 18 percent of these renews their cell phones annually (Reforma arancelaria para más de un centenar de productos importados). Through Resolution No. 67, the COMEX established the application of import quotas in quantity and value for cell phones which are classified under the tariff heading 8517120090, which includes all the electrical phones.

To complement this measure, Article No. 6 of the mentioned resolution establishes that it is prohibited the import of these products by Correos del Ecuador, Courier, arrival halls as part of the traveler hand luggage; this also includes the arrivals either border crossing or seaports. However, it established that natural individuals who enter the country will be allowed to bring only a used cell phone and a new one. In case of default, the remaining products will be reshipped to the origin country.

Several modifications have been done in order to improve the importers situation, and especially with the objective to have better control over the imports amount. Resolution No. 69 was created with the objective of regulate each importer FOB value quotas. The variation is done on the value and not on the quantity, because it is allowed to import items of greater value that may have more technology, but quantities are maintained with the objective of reducing the mentioned technological junk.

Finally, it is emitted Resolution No. 77 which establishes some exceptions for the application of this measure. The first sustained in Article No. 5 excludes the restriction of cell phones imports that are within the heading 8517120090, which corresponds to the PDA Personal Digital Assistant devices. For the regulation of these products imports, it was requested to the SENA, the opening of an additional code for all PDA for camp maintenance activities, tag reader devices, receivers for geographic location and other similar devices.

The second modification is mentioned in Article No. 6, which authorizes the vehicles importation, if these are always prototypes and noncommercial. For its import, there is required a previous MIPRO report that certify its use.

- **Previous Control Documents**

To know all the documents required for the nationalization process, it is important to mention Resolution No. 364, emitted by the COMEXI in the year 2006. This resolution approved the Imports Previous Control Regime; and from this, some modifications related to the institutions that manage and control the emission of licenses and permits, and especially changes in subheadings and the requirements that have depend on the industry behavior had been done.

It is necessary to know that the previous control documents are required to consume and human use products.

One of the major modifications was Resolution No. 465 emitted by the COMEXI in the year 2008, where the principal institution that controls the certificates of some products was changed. Initially, it was in charge of the Ecuadorian Agricultural Health Service SESA, and later it was changed by the Ecuadorian Agency for Quality Assurance AGROCALIDAD.



Secondly, the resolution established that for import products related to standards and technical regulations, they must apply the INEN-1 Certification previous to the goods shipment. Third, the Ecuadorian Standardization Institute INEN, the Quality Council CONCAL and the Ecuadorian Accreditation Organization OAE were assigned as the responsible institutions for the certificates emission (Resolución 465, 2008).

- **Health Records**

In June of 2009, the COMEXI emitted Resolution No. 491 which mentioned that certain tariff subheadings are required to submit a Unified Health Registry, which can be seen in the following chart.

**Chart No.11. Annex II of Resolution No. 63.**

<b>Tariff Subheading</b>	<b>Institution</b>	<b>Previous Control Document</b>
2936260000	PHD / AGROCALIDAD / NFI	Health Registry - Product Registry - Unified Health Registry
2936270000	PHD / AGROCALIDAD / NFI	Health Registry - Product Registry - Unified Health Registry
2936270000	PHD / AGROCALIDAD / NFI	Health Registry - Product Registry - Unified Health Registry
2936299000	PHD / AGROCALIDAD / NFI	Health Registry - Product Registry - Unified Health Registry
2941301000	PHD / AGROCALIDAD / NFI	Health Registry - Product Registry - Unified Health Registry
2941309000	PHD / AGROCALIDAD / NFI	Health Registry - Product Registry - Unified Health Registry
2941400000	PHD / AGROCALIDAD / NFI	Health Registry - Product Registry - Unified Health Registry
2941909000	PHD / AGROCALIDAD / NFI	Health Registry - Product Registry - Unified Health Registry

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad. 2013. Resolución 63 COMEX. [Cited on: February 20, 2014] Available at: <http://www.produccion.gob.ec/2012-resolucionescomex/>

The annex tariff subheadings, according to the National Tariff Book, include chemical industry products as vitamins, antibiotics and their derivatives. The institutions who provide this record, as it can be seen, are the Public Health Department, AGROCALIDAD, and the National Fisheries Institute.

Later, Resolution No. 493 was emitted in July of 2009; which attached two annexes:

**Chart No. 12. Annex I of Resolution No. 493.**

Tariff Subheading	Institution	Previous control document
5601.10.00.00	MIPRO or PHD	Importer Record or Health Record or mandatory Health Notification granted by the competent National Authority

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad. 2013.

Resolución 493 COMEXI. [Cited on: February 20, 2014] Available at:

<http://www.produccion.gob.ec/wp-content/uploads/downloads/2013/06/resolucion493.pdf>

In this case, the tariff subheading corresponds to textiles and its manufactures; it also includes textile fibers, baby diapers, and hygiene products, among others. It is established that the institution responsible for the document emission is the MIPRO or the Public Health Department, depending on the product type.

**Chart No. 13. Annex II of Resolution No. 493**

<b>Institution</b>	<b>Document</b>	<b>Product</b>	<b>Legal Foundation</b>
Public Health Department	Sanitary Record or mandatory Sanitary Notification granted by the competent National Authority	Domestic hygiene and absorbent personal hygiene products included in Annex I of decision 706 of the Andean Community	<b>Art. 137</b> of the Organic Health Law published in the Official Register 423 of December 22, 2006  <b>Art. 1 and 5</b> of the decision 706 of the Andean Community published in the official gazette No. 1680

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad. 2013. Resolución 493 COMEXI. [Cited on: February 20, 2014] Available at:

<http://www.produccion.gob.ec/wp-content/uploads/downloads/2013/06/resolucion493.pdf>

This second annex established the requirement of previous control documents for the domestic hygiene products imports. It is important to mention the legal base through Article No. 137 of the Public Health Law, textually it established that are subjected to sanitary registration:

“Processed foods, food additives, medicines, nutraceuticals products, biological products, processed natural medicinal use, homeopathic medicines and dental products; medical devices, biochemical and diagnostic reagents, hygienic products, pesticides for domestic and industrial use; manufactured in the country or abroad, for import, export, sale, supply and sale, including those received in donation”.

Resolution No. 496 was an emitted modification in response to a pharmaceutical industry request, which asks for the elimination of sanitary registration requirement related to imports of raw material used in the manufacture of human use medicinal products. So it was established to modify Annex I with Annex II.

**Chart No. 14. Annex I of Resolution No. 496.**

<b>Tariff Subheading</b>	<b>Institution</b>	<b>Previous control document</b>
2936	AGROCALIDAD or HPD or NFD	Product Record or Sanitary Record or <b>Competent Authority Certification according to their final destination</b> or Unified Health record
2941	AGROCALIDAD or HPD or NFD	Product Record or Sanitary Record or <b>Competent Authority Certification according to their final destination</b> or Unified Health record

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad. 2013.

Resolución 496 COMEXI. [Cited on: February 20, 2014] Available at:

<http://www.produccion.gob.ec/wp-content/uploads/downloads/2013/06/resolucion496.pdf>

**Chart No. 15. Annex II of Resolution No. 496.**

<b>Institution</b>	<b>Document</b>	<b>Product</b>	<b>Legal Base</b>
Public Health Department	Sanitary Record or <b>Competent Authority Certification according to their final destination</b>	2936. Pro-vitamins and vitamins... 2941. Antibiotics	<b>Art. 136</b> of the Organic Health Law published in Official Register 423 of December 22, 2006.

**Source:** Ministerio Coordinador de Producción, Empleo y Competitividad. 2013.

Resolución 496 COMEXI. [Cited on: February 20, 2014] Available at:

<http://www.produccion.gob.ec/wp-content/uploads/downloads/2013/06/resolucion496.pdf>

As it can be seen in Annex II, it was mentioned the Article No.136 of the Health Law, which establishes: “raw material for the production of goods subjected to sanitary registration, do not require for its import to comply with this registration, if they justify their use”.

- **Import Licensing**

Import licenses are part of technical measures for the products control, but they mostly allow the State to control the imports growth in order to protect domestic industry, and to control the Trade Balance.

In August of 2011, through Resolution No. 17, it is incorporated an Annex I to the List of products subject to previous import controls; and it also established that the responsible for managing licenses is the MIPRO (Resolución 17. Nómina de productos sujetos a controles previos a la importación, 2011).

Some of the products that need import license are:

- Radials
- Freezers
- Furniture
- Mobile Phones
- CKD
- Hybrid vehicles
- Articles of appliances, etc.<sup>1</sup>

In this resolution, some exceptions are also mentioned; for example, natural or legal person who imports 5 units of each product and do not exceed the value of \$3.000 USD are exempted to process import licenses.

It is emphasized that these must be for personal use, including imports entering the country as part of the traveler luggage. Imports of migrants, people with disabilities, and the ones covered in the Immunities, Diplomatic Privileges and Franchises Law are also exempt.

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<sup>1</sup>Review Resolution No. 17 to appreciate all products, the previous required document, the issuing institution and some comments for its requirements.

In August 29 of 2011, Resolution No.24 was emitted with some modified items of the Resolution No.17. The first change is related to the licenses emission, since Resolution No.17 explains that they have to be presented for each shipment; while in Resolution No. 24 it is eliminated this requirement and it is established that it has to be present only once for all shipments. Similarly, it establishes that import licenses have to be obligatory submitted as part of the customs declaration, so importers have to get it before the goods are loaded.

The second modification reforms Art.10 of Resolution No.17, establishing that imports of 5 units with a value not exceeding of \$ 3.000 USD are exempt, if they are carried out once a year either being part as traveler luggage are within the goods with special treatment. It also includes the import of CKD with the condition that they should be used in the vehicle replacement program RENOVA.

The last modification established that the State imports needs to present contracts or some documents that justify the import to get the import licensing by the MIPRO. And finally, it established to remove Annex I of Resolution No.17 for the items listed in the Annex of Resolution No. 24.

- **INEN Certifications**

Recognition certificates work as a technical measure, because they require a survey of the product structure and composition. To apply for the INEN certifications, Resolution No.009-2009 of CONCAL created an annex with the list of products subjected to control. Some of the products are:

- Cements
- Petroleum oils
- Tubes
- Tires
- Clothing and accessories, among others.

In the year 2013, it was emitted Resolution No.116 which established that it is necessary to present INEN-1 Certificate to verify the compliance of the Technical Regulations TR INEN for the manufactured imports.

Also, the resolution emitted an Annex I that includes the presentation of a Recognition Certificate for certain products, and expresses that it will be obligatory to present as customs declaration support document.

It is established that the INEN is responsible for the emission of the Recognition Certificate Formulario INEN 1, within a maximum of 5 days from the receipt of technical documentation (Resolución 116, 2013).

Finally, goods covered by the COMEXI as commodities with special treatment such as: household goods or work equipment, relief consignments, donations, among others are exempt of obtaining the Recognition Certificate (Ibid).

Imports restriction has given a higher priority to consumption of domestic products. At the same time, the producers modified their production process to comply with the measures established by the Government in order to provide quality products.

Basically, non-tariff measures are mostly related to the population health and the environment care, and they especially certify the due production process.

Article No. 5 of the Law No. 2007-76 about the Ecuadorian Quality System, provides that the law provisions will be apply to all produced, imported and marketed domestic and foreign goods and services, with the objective of ensure its quality, its promotion and distribution.

### **2.2.3 Relation of the applied trade measures with the National Plan for the Good Living 2009-2013**

As a result of the Payments and Trade Balance imbalances, the Government proposed a change in the country economic model. To achieve this goal, besides the application of trade measures, the Plan for the Good Living 2009-2013 was created.

The Ecuador current Constitution which was approved by referendum, and modified in the year 2008 by Rafael Correa government; in Article No. 280 mentioned the following (Constitución de la República del Ecuador, 2008):

“The National Development Plan is the instrument to which the policies, programs and public projects will be subject; the programming and implementation of the state budget; the investment and the allocation of public resources; and coordinate the exclusive powers between the central and autonomous governments. Its observance is mandatory for the public sector and indicative for other sectors”.

Based on this article, the National Plan for the Good Living was developed as a governmental instrument created to complement trade policies. The same was created by the National Planning and Development Secretary SENPLADES in the period 2007-2009, and it consists of 12 objectives and 12 strategies for the economic, commercial and industrial growth and social development. With the implementation of the Plan, the Government established the following as general objectives:

- To achieve production diversification
- To achieve a sustainable development through the strengthening of national industry and exports
- To eradicate poverty
- To ensure proper natural and economic resources distribution.



The trade measures applied by the Government are related to the objectives and strategies proposed in the Plan for the Good Living. Now, the main points which are directly related will be mentioned (Plan Nacional para el Buen Vivir 2009-2013).

**Transformation of the economic specialization pattern, through selective import substitution for the Good Living**

This strategy was established with the objective of increasing the domestic production capacity, and it provides greater participation to small, medium and especially to emerging companies. At the same time it is involved with the social development through employment generation, environment care and the growth of domestic demand.

This goal begins with the labor specialization, which was often regarded as unqualified. This situation has generated the maintenance of low wages and the stagnation of domestic demand. It also has affected the domestic market development, and increased the imports level with low prices that threat the national economy.

To this situation is added the Ecuadorian currency, because as being the U.S. Dollar, it cannot manipulate the exchange rate to face international disadvantages in terms of prices variation.

Through the Plan for the Good Living, the Government has created training programs for Human Capital in order to improve: production, the living conditions, get higher wages, and the domestic consumption. With selective import substitution, it tries to stimulate national product demand, support industries, especially the new ones, and reduce external dependence.

As it is mentioned in the Plan for the Good Living, for the implementation of this measure, the following special features have to be complying by the selected sectors:

- To generate employment
- To help to get food sovereignty
- Not to multiply environmental impacts
- To let short-term results and hold them in a long- term.

Imports substitution in conjunction with Government programs try to increase industries participation and productivity, through the creation of industrial complexes and new production capacities that allow to achieve a scale economy. Also, it promotes the means of production decentralization in order to achieve a fair distribution that generates more competitiveness of the different sectors. Finally, it looks to diversify exportable production in order to create more jobs and generate a higher income to the country.

Through this objective, financial intermediation will be used as a tool to enhance the production of small and medium sized enterprises. Through imports reduction, the new enterprises have as requirement to produce more, supply the domestic market, and offer their product to the international market.

### **Investment for the Good Living in a sustainable macroeconomic structure**

This objective proposed three fundamental conditions that must be complied to achieve the Good Living. The first is to reach economic balance, which can be achieved through the savings that will be invested in domestic production in order to generate income. The second condition is to achieve equitable economic organization, with a reasonable distribution of productive resources; and the third is the distribution of productive capital directed to transform and encourage the economic country model.

In this strategy, public investment is critical, because it allows the correct manage resources to be used in activities that encourage domestic production and gives results in medium and long term. Public investment tries to potentiate the production chains, so these will provide higher performance, increase the production added value, develop new production capacities, and promote domestic demand.

Through public investment, capital is assigned to sectors considered as production value generators, so it will increase their capacities and international opportunities. For example, investments can be assigned to improve basic and technical education, health, infrastructure development, and support the systematic productivity as telecommunications, metallurgy, software, research platforms, laboratories, etc.

Proper capital allocation strengthens productivity, so it will reduce costs and increase the participation of these sectors in the national and international economy. Moreover, this objective establishes others important strategies to achieve the Good Life as (Inversión para el Buen Vivir, en el marco de una macroeconomía sostenible, 117):

- **To maintain strategic income sources:** this initiative allows the creation of productive activities that generate employment and maintains a macroeconomic balance.
- **To create opportunities:** through the re-distribution of resources, it is proposed to develop the human capabilities, so that create jobs and generate productive alternatives for people.
- **To strengthen food sovereignty:** through the development of technologies that enable the production of quality food, so it will be able to replace imports and encourage participation and domestic consumption.
- **Capital accumulation:** in order to invest in the creation of industrial complexes that increases the national productivity and the economic earnings.
- **To promote industrialization, the development of services and the creation of value in production:** in this strategy, it is mentioned the import substitution to generate a change in the economic model. State intervention is needed to generate more opportunities and set aside the traditional primary export model. State intervention seeks to encourage the development of new industries, to the specialization of services such as community tourism.
- **To invest and develop science and technology capacities:** technology transfer and knowledge applied to productivity. This strategy considers that technological dependence is a barrier that impedes the national productivity and the economic

development. For this, investment in technology transfer and generation is proposed, so it will allow to increase the productivity.

- **Public investment equitable distribution:** capital has traditionally focused on the most populous cities or areas of political influence, which has generated the stagnation of poor areas. This strategy tries to eliminate this situation and provide the same benefits and opportunities for the national economy development.

### **Implement mechanisms for public-private investment coordination**

This strategy tries to achieve cooperation between public and private investment, so it will increase the productivity, the economic benefits and will generate employment. To achieve this goal, it must focus on:

- **Strengthen energy sovereignty,** through the change of the energy matrix, so clean and efficient technologies will be generated to give added value to the domestic industry. The lack of investment in the energy sector has generated the increase of electricity import damaging the domestic industry.

This objective is complemented with literal No. 2 of the Article No. 276 of the Ecuador Republic Constitution, where it is mentioned: “build a fair economical system, democratic, productive, supportive and sustainable based on the equal distribution of the development benefits, of the means of production and the creation of decent and stable employ”.

At the same time, Article No. 277, paragraph 3 within the Development Regime, mentioned the following: “generate and execute public policy and control and punish the non-compliance”. Finally, in Section No. 334, it is mentioned the factor products democratization where equal access to factors of production is emphasized, eliminating inequalities in access (Constitución de la República del Ecuador, 2008).

The Government, through the Ministry of Industry and Productivity MIPRO, has proposed the use of industrial policy in order to promote productive activities, generate employment, competitiveness, increasing of domestic demand and especially a long-term change in the production model. With the development of this program it tries to increase the productive capacity of small and medium sized enterprises through the proper distribution of natural and economic resources. Similarly, it looks for generating added value to the domestic industry, so it can promote the Ecuadorian product in the international market.

For the development of these programs, the Government has selected different sectors considered potential sectors for the development of the domestic economy and trade. Among the selected sectors are (Fomento a las MIPYMES, Aplicado al sector del calzado, 6):

- Garments and Footwear
- Motor vehicles and parts
- Renewable energy
- Pharmaceuticals products and chemicals
- Metalworking
- Software
- Fresh and Processed Food.

To achieve the development of these sectors over the applied safeguards, it was created different strategies and policies:

### **Strategies**

- To encourage the capabilities sectors
- To encourage innovation, technological development and research.
- Development of local markets and the promotion for international markets access
- Services generation that supports the productive sector.

## Policies

- To promote productive activities and industries to generate greater added value. This will be achieved through the promotion of incentives to attract domestic investment and promote industrial development. For example, training programs and technological entrepreneurship, promotion of products through national and international fairs and catalogs.
- To promote artisans, small and medium sized enterprises productivity growth. With the intervention of the National Development Bank, it is pretended to promote financial loans with special conditions that facilitate the development of MIPYMES.
- To improve and promote the quality of labor and employment. Promoting the professionals technological specialization, technicians, artisans and labor depending on the demands of the different sectors.
- To promote the quality production of goods and services. Through the intervention of the Ecuadorian Standardization Institute INEN and PROECUADOR program, in complement with the creation of standards and granting quality certificates is intended to control the production quality.
- To incorporate and adapt new technological processes to the domestic industry. With the PRODUCEPYME program, it seeks to develop new technological processes. This is a research program of new technologies, developed in cooperation between the public and private sector and universities.
- To promote the PRO environment production. With the creation of sanitary and phytosanitary standards, it seeks to establish the proper management of industrial waste. Similarly, it seeks to promote a recycling culture and the use of renewable sources.
- To reduce transaction costs in order to improve production, innovation and marketing. The objective is to improve distribution channels and the incorporation of logistics programs.
- To promote the diversification of products and markets. This will be achieved through the export programs offered by PROECUADOR.

As it can be seen, the above policies and strategies are related to the development of the sectors that were strategically selected for the implementation of safeguards and tariff and non-tariff measures.

The purpose of these is to restore equilibrium in the Payments Balance and the protection of the national industry. It also seeks to provide an opportunity to small and medium sized enterprises to develop industrially and supply the domestic market with quality products, and above all to compete internationally with a wide range of products.

The results expected from the implementation of the sectors programs are:

- To increase productivity and competitiveness
- To improve the quality standards
- To increase the sales volume
- To access to new markets
- To attract local investments
- To increase of productive employment
- To access to production factors
- To improve market and State failures.

Finally, Article No. 52 of the Ecuador Republic Constitution mentions that people have the right to dispose of goods and services of highest quality and accurate and not misleading content and features information. This provision is related to the Plan for the Good Living, which mentions that one of the Government objectives is: “Reaching the real productivity increase and the diversification of exports, exporters and global destinations”.

Programs development was based on the national reality, as many workers do not have the knowledge about the quality products elaboration; this impedes enterprises growth, and makes them less competitive in the international market. The programs have as

objective to promote quality production culture and achieve social welfare through the consumption of qualified processes products.

Among the objectives of the Government developed programs are (Art. 72 COPCI, 2010):

- To promote financial assistance programs with flexible loans that facilitate the implementation of adequate environmental techniques for cleaner and competitive production, so it will generate the exports growth.
- To promote the creation of an agricultural and industrial environmental certification products system, in order to facilitate Ecuadorian products access to international markets.
- To promote environmentally responsible exports and imports.

INEN is the main institution responsible for issuing different kinds of certificates required for imports and marketing of human consumer and use products. This institution was created in 1970 with the objective of promoting quality in products, processes and services offered in the country. Similarly, it is responsible for developing activities that encourage Ecuadorian companies to produce quality goods. The develop programs are related to the Plan for the Good Living, to ensure the population welfare.

INEN is responsible for developing processes of standardization, regulation, certification, metrology; to develop policies related to technological development and production diversification, in order to use the capacities and the existing resources, improve product quality, ensure the citizen rights fulfillment related to the safety and protection of human health, environmental and consumer protection (Sello de calidad INEN la mejor opción de certificación, 5).

One of the Government programs created through the INEN is based on granting INEN Quality Seal, which recognition is given by the Government when different technical standards requirements were comply by a product. The objective is to give greater



positioning to Ecuadorian products, and the creation of new markets who offer their products at national and international level.

The advantages of obtaining this quality seal are:

- To strengthen exports and facilitate the Ecuadorian products entry to other countries
- To ensure products quality
- To facilitate trade
- To generate consumer confidence.

This quality seal is awarded to companies that after a verify processes have complied with the established standards. To obtain this seal, a voluntary agreement between the company and the INEN is done, where it serves periodic verification of the company quality system, of the products; also it offers technical services laboratory and offers control machinery, etc.

Certainly, the use of trade measures is part of the Government strategic plan to achieve the good living. Limiting imports together with Government programs were fundamental in promoting the national industry development, while employment was generated.

The application of non-tariff measures through license requirements, more than reduce imports, contributed to the development of national quality, because the established requirements were also applied to domestic products in order to offer quality products that do not injury the consumers health.

### **2.3 Trade measures results applied in the year 2009 and 2012.**

As it was mentioned, in recent years Ecuador has been applying trade measures as a protectionist tool. The main objective is to achieve industrial development, using the

strategic selection of productive sectors which participated in the program of import substitution.

With the developed Government programs to encourage domestic production, various benefiting sectors contributed significantly to the exports growth and diversification.

The following tables show exports since 2007, represented in thousands of USD.

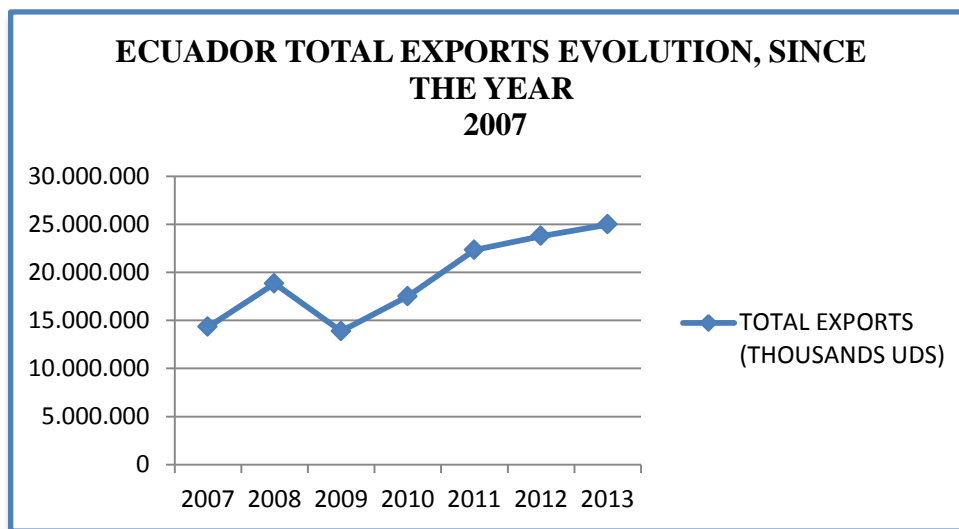
**Chart No. 16. Ecuador exports evolution, since the year 2007.**

	2007	2008	2009	2010	2011	2012	2013
TOTAL EXPORTS							
	14.321.316	18.818.327	13.863.058	17.489.928	22.322.353	23.764.762	24.957.650
NON-TRADITIONAL EXPORTS							
	3.545.656	4.131.637	3.462.395	4.110.994	4.848.555	5.576.189	5.662.056

**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

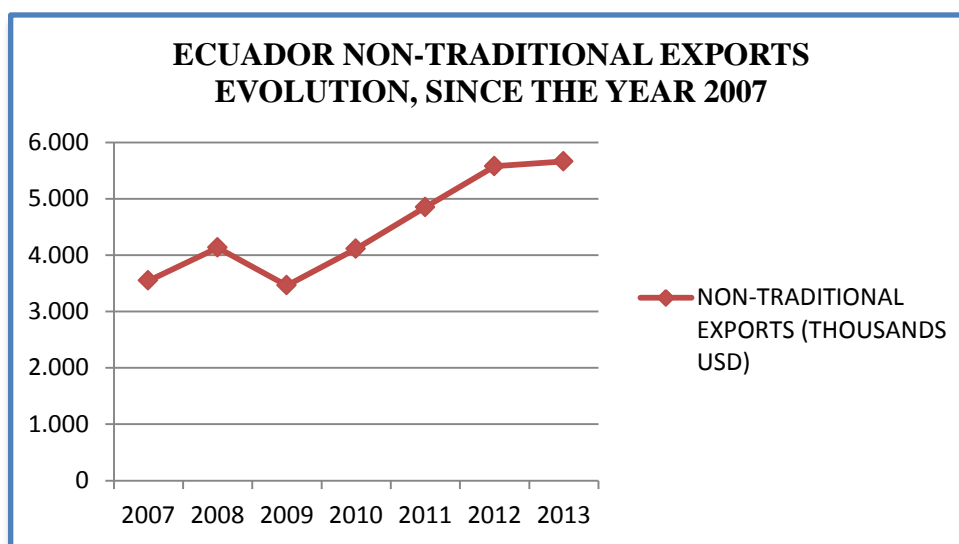
**Graphic No. 3. Ecuador total exports evolution, since the year 2007.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. ||1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

**Graphic No. 4. Ecuador non-traditional exports evolution, since the year 2007.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

Since the safeguards implementation, exports have been increasing as a result of the domestic production growth. Below some sectors that have shown a strong growth will be mentioned; the amounts are represented in FOB thousands USD.

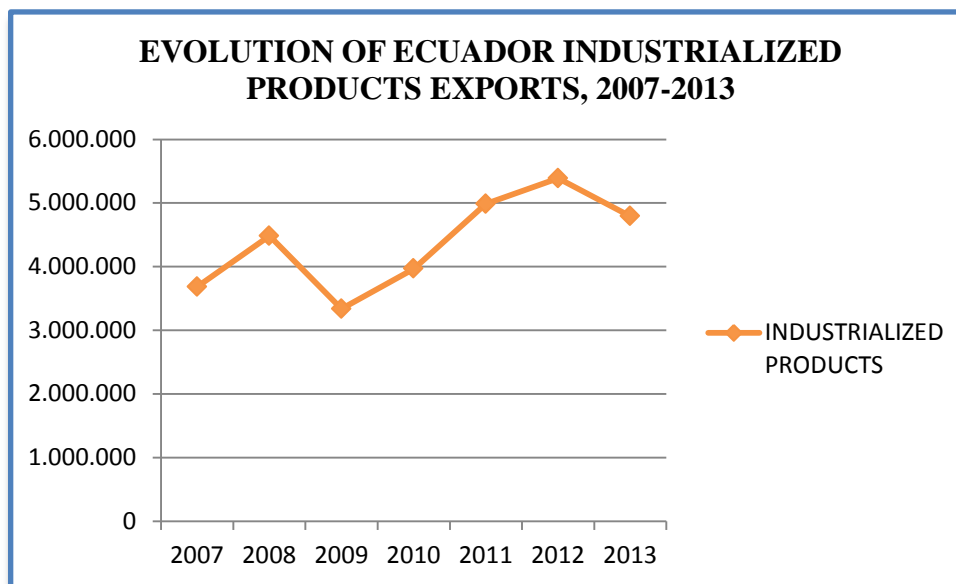
**Chart No. 17. Ecuador total exports by sectors**

	2007	2008	2009	2010	2011	2012	2013
INDUSTRIALIZED PRODUCTS							
	3.683.656	4.483.552	3.337.606	3.969.367	4.985.568	5.387.906	4.792.206
CHEMICAL PRODUCTS							
	115.844	122.083	118.691	190.229	204.826	254.139	19.939
TEXTIL MANUFACTURES							
	83.702	135.105	162.984	191.046	179.021	137.408	139.953
METAL MANUFACTURES							
	686.410	749.400	532.750	707.644	695.927	896.515	545.638

**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

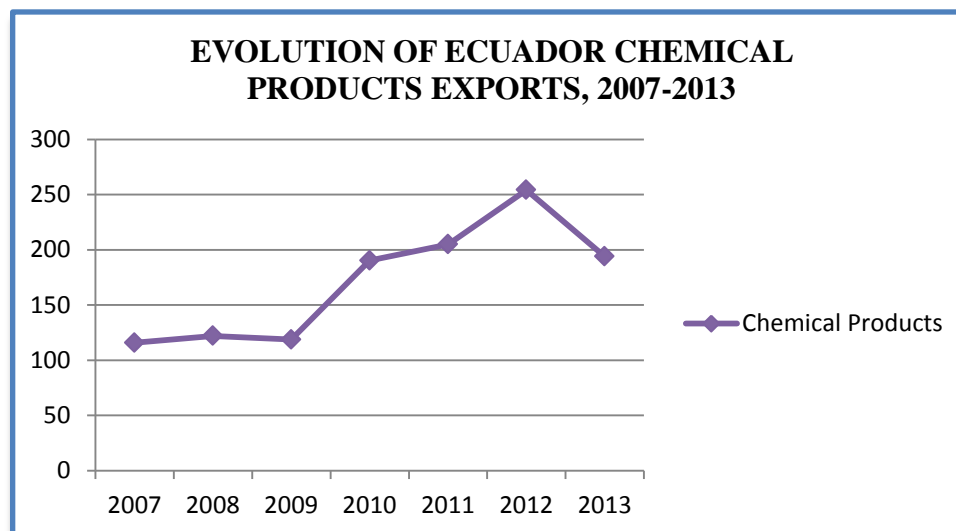
**Graphic No. 5. Evolution of Ecuador industrialized products exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

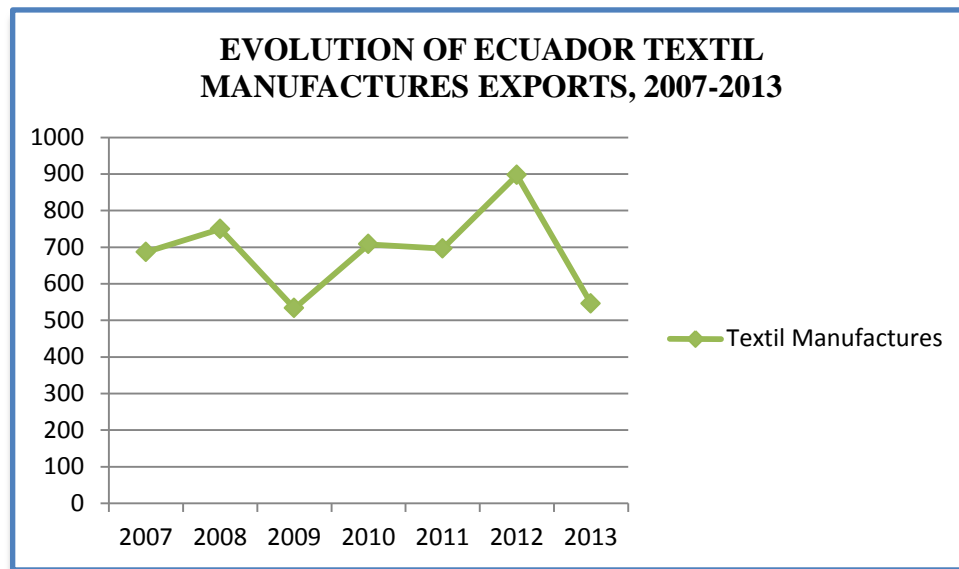
**Graphic No. 6. Evolution of Ecuador chemical products exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

**Graphic No. 7. Evolution of Ecuador textil manufactures exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

Among the non-traditional exports, the most important products whose quantities are represented in thousands of USD are:

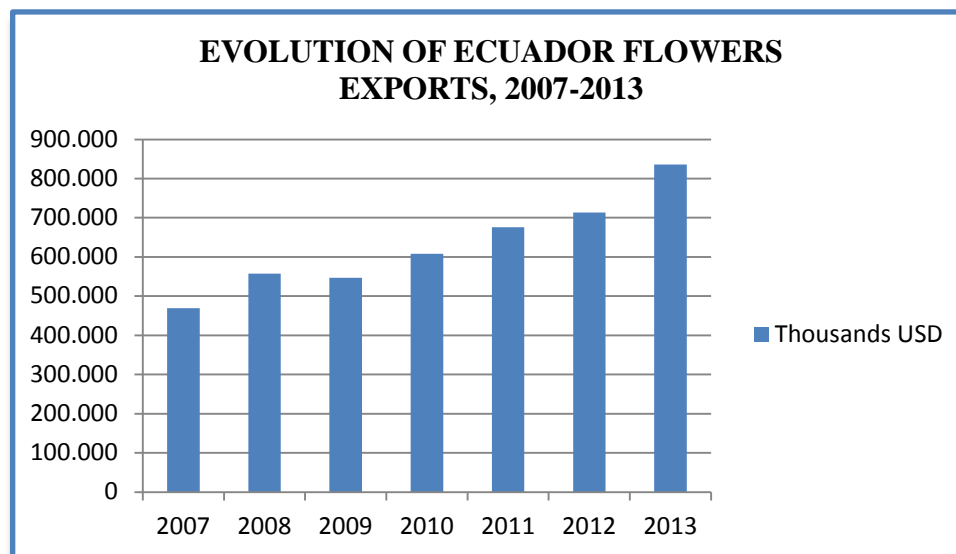
**Chart No. 18. Ecuador Non-Traditional exports, since 2007.**

PRODUCTS	2007	2008	2009	2010	2011	2012	2013
Flowers	469.424	557.560	546.701	607.765	675.679	713.502	835.650
Wood	92.994	113.942	99.473	131.476	15.510	160.762	172.777
Mining products	69.942	98.089	62.714	89.139	166.281	439.062	550.923
Fruits	66.250	57.800	73.612	66.070	76.731	75.775	70.297
Tobacco	30.642	29.803	38.429	37.142	41.656	44.529	48.120
Other primary	163.346	109.723	124.452	98.222	140.459	114.072	164.094
Juices, canned fruits	150.126	166.732	180.575	179.231	164.435	128.001	148.046
Vehicles	382.795	411.392	256.344	374.891	394.058	501.139	172.483
Clothing	30.796	29.167	21.508	22.019	26.256	24.793	26.543
Other textil manufactures	52.906	105.938	141.476	169.027	152.765	112.615	113.411
Leather, plastic and rubber manufactures	154.308	158.596	128.331	159.116	216.423	218.112	235.862
Paper and paperboard manufactures	46.299	49.456	34.790	47.076	62.378	66.995	74.225

**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

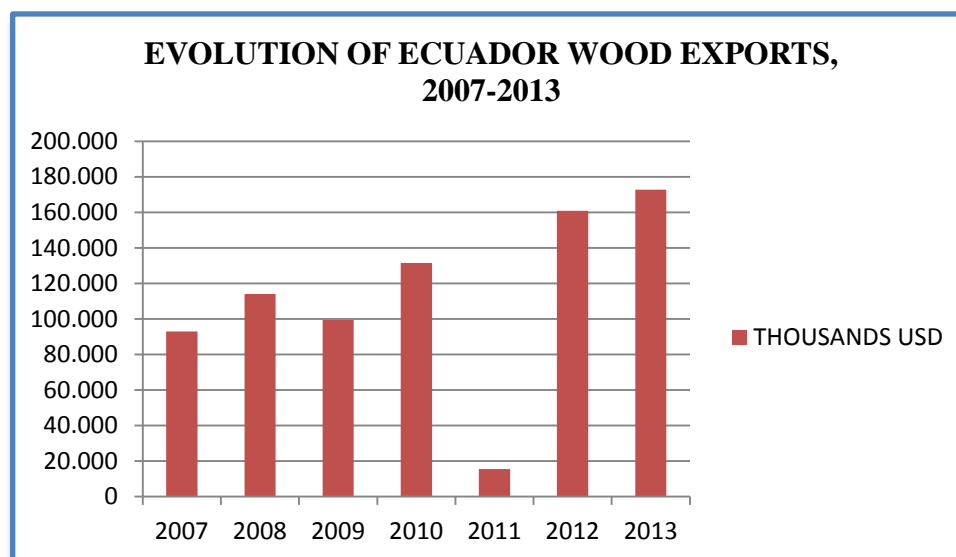
**Graphic No. 8. Evolution of Ecuador flowers exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

**Graphic No. 9. Evolution of Ecuador wood exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.



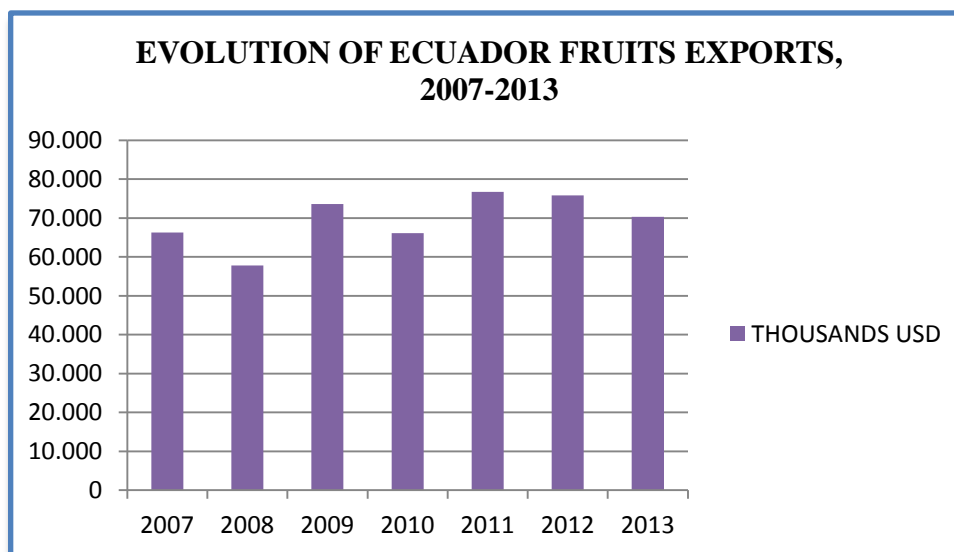
**Graphic No. 10. Evolution of Ecuador mining products exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

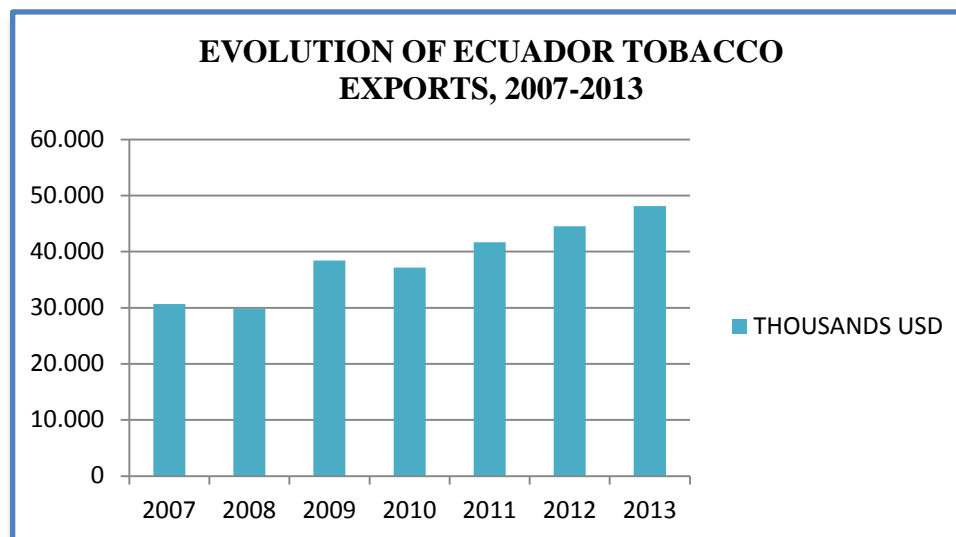
**Graphic No. 11. Evolution of Ecuador fruits exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

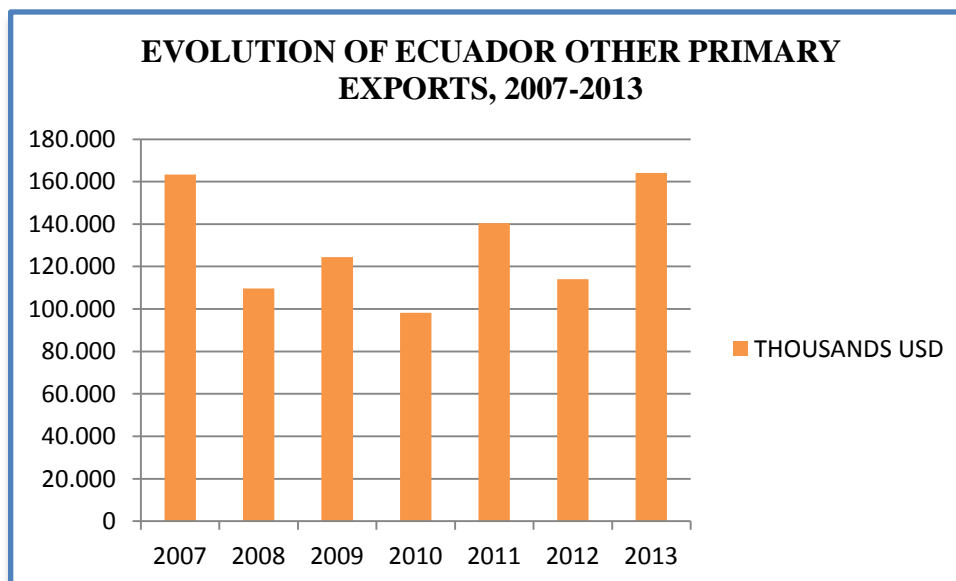
**Graphic No. 12. Evolution of Ecuador tobacco exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

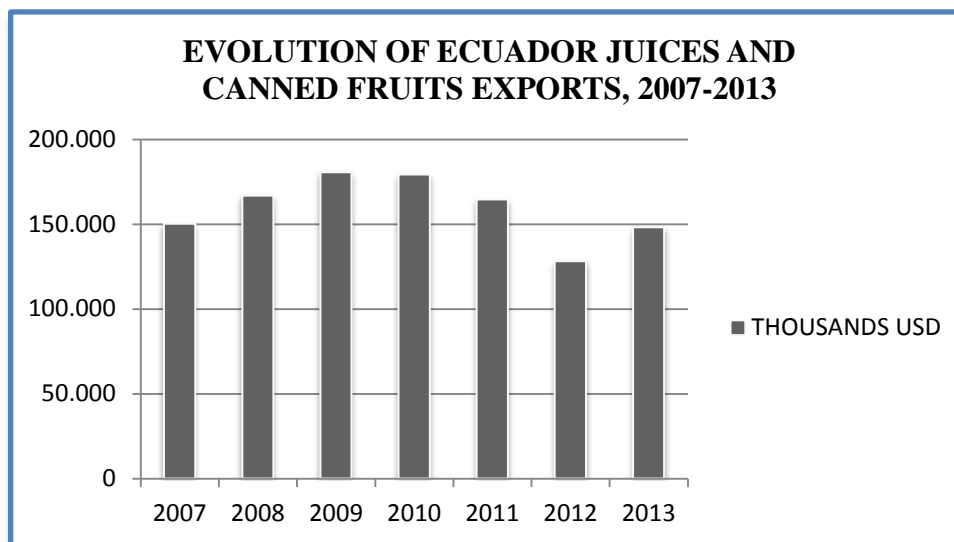
**Graphic No. 13. Evolution of Ecuador other primary exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

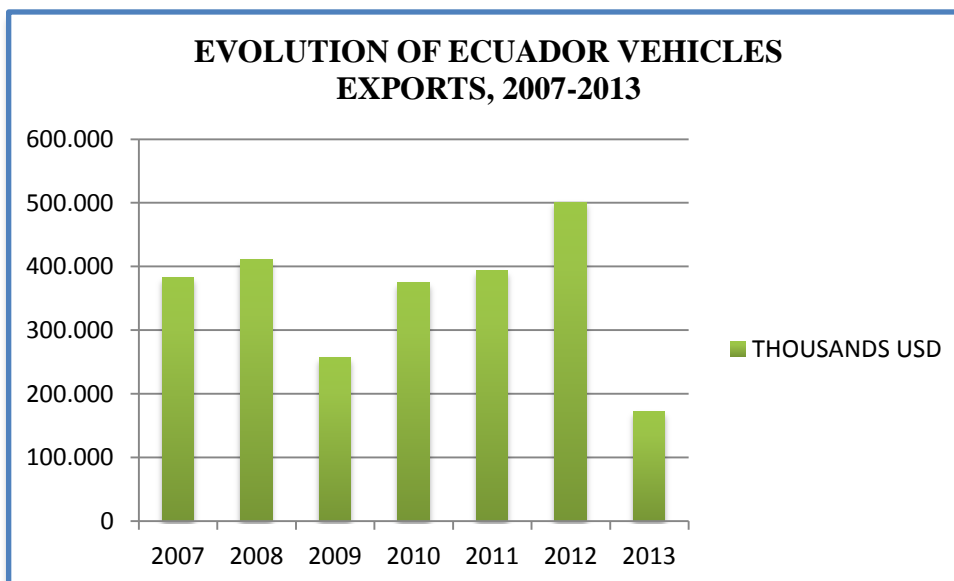
**Graphic No. 14. Evolution of Ecuador juices and canned fruits exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

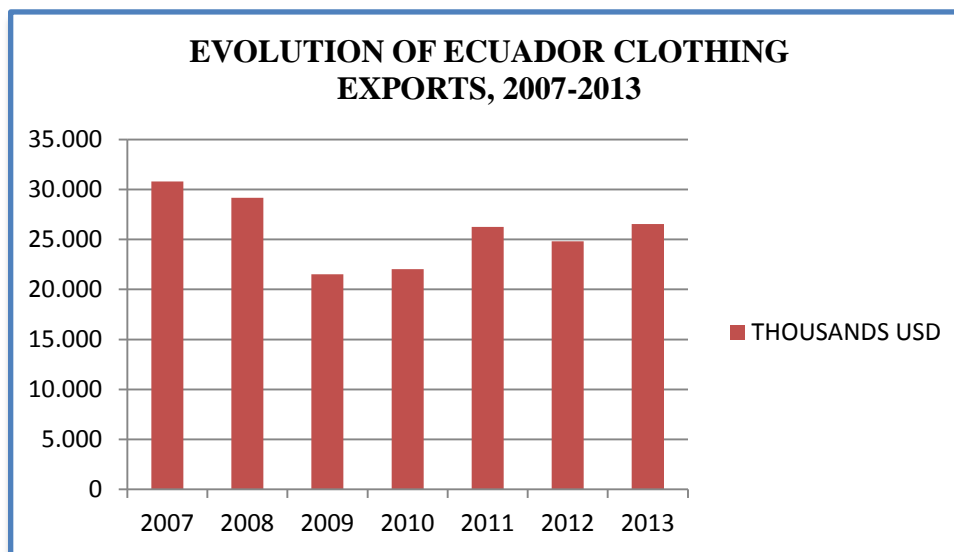
**Graphic No. 15. Evolution of Ecuador vehicles exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

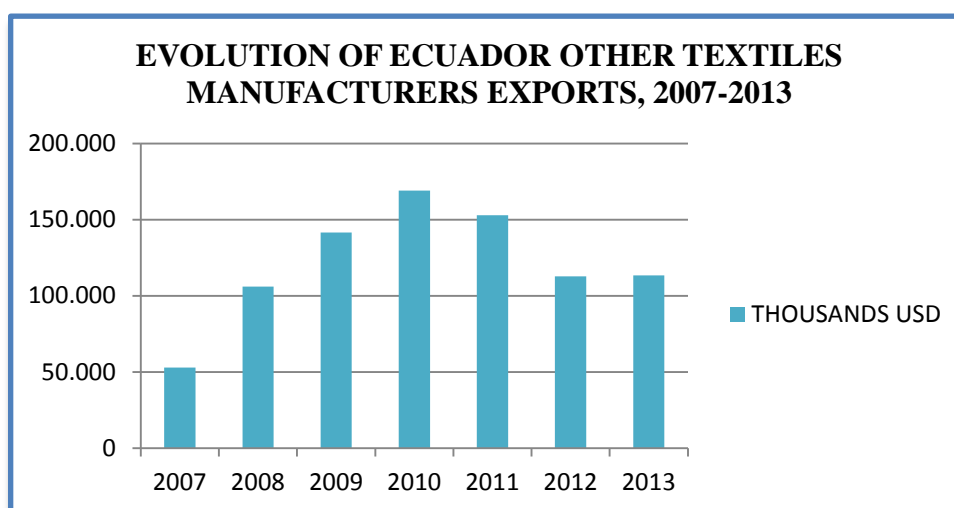
**Graphic No. 16. Evolution of Ecuador clothing exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

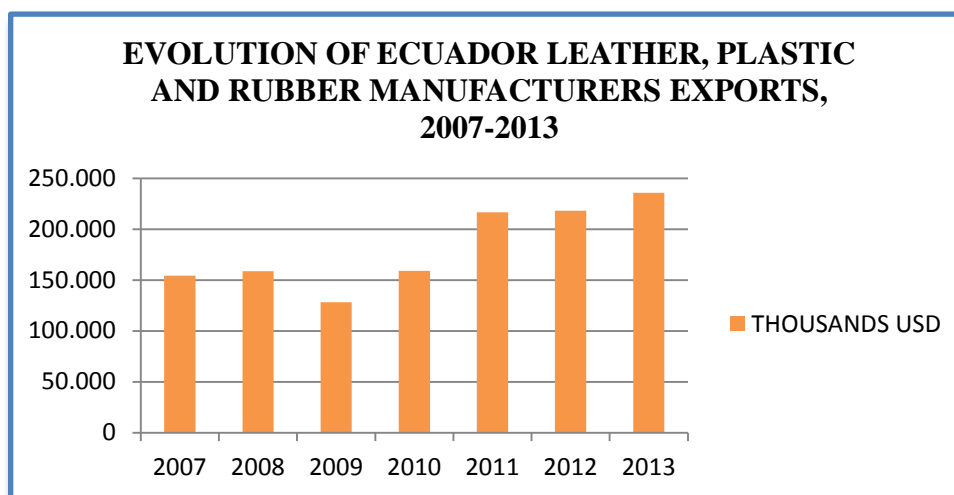
**Graphic No. 17. Evolution of Ecuador other textiles manufacturers exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

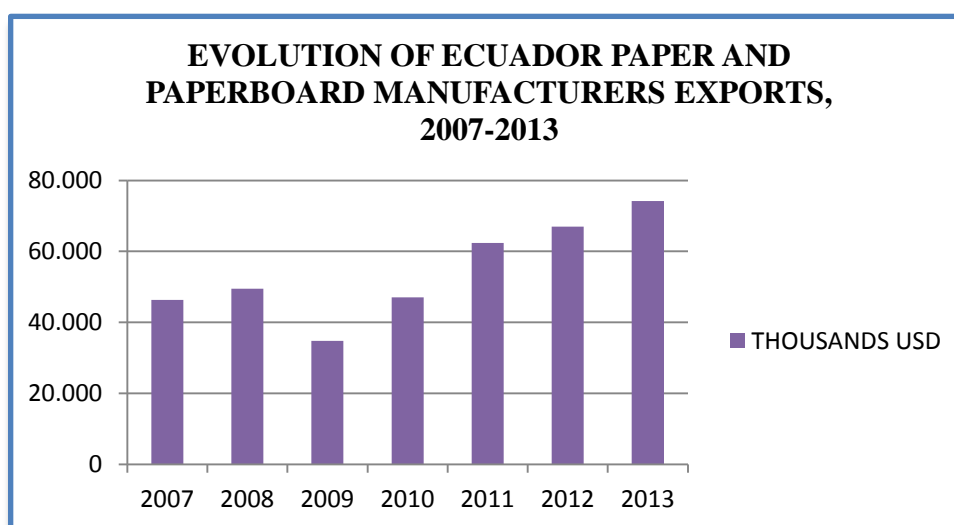
**Graphic No. 18. Evolution of Ecuador leather, plastic and rubber manufacturers exports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

**Graphic No. 19. Evolution of Ecuador paper and paperboard manufacturers exports, 2007-2013.**



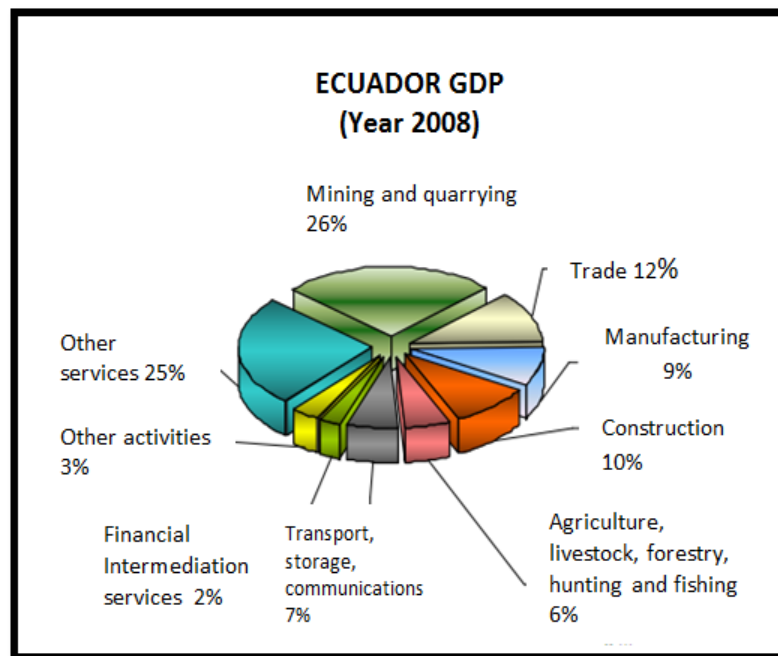
**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54;

**Elaborated by:** María de Lourdes Cárdenas.

As it can be seen, the export of non-traditional products has grown fulfilling one of the objectives such as the production diversification. Similarly, it contributed in GDP growth because the last quarter of 2013, it increased by 4,9 percent, which shows the effectiveness of the applied measures in relation to the national industry development. The Ecuador Central Bank reported that since 2010, the non-oil sector has 15 consecutive quarters of positive growth.

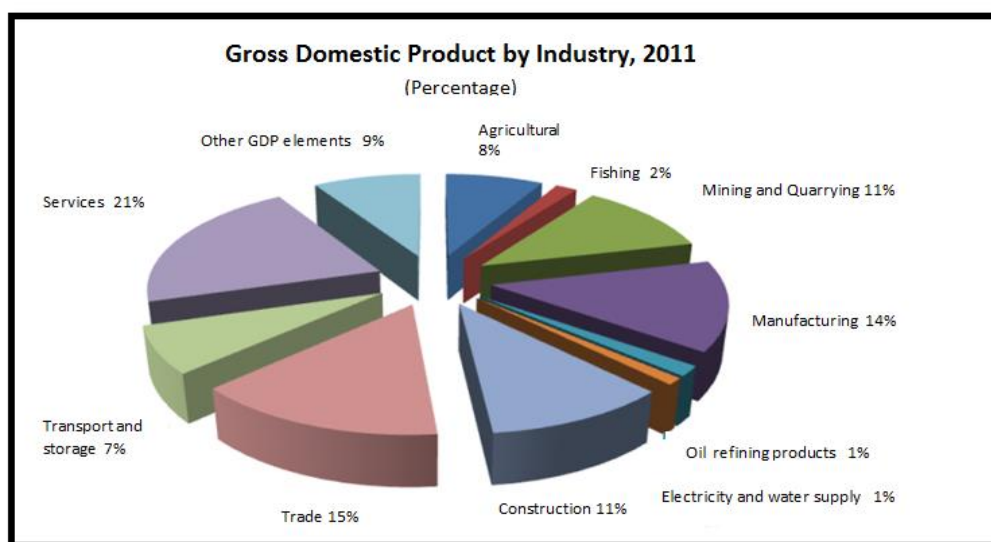
The following graphs show some sectors percentages regarding the contribution of GDP. It has been taken into account the years 2008, 2011 and 2013, because trade measures were applied in the year 2009 and 2012, so it shows the percentage variation before and after the application of the same.

**Graphic No. 20. Ecuador economic sectors based on their contribution to GDP in 2008.**



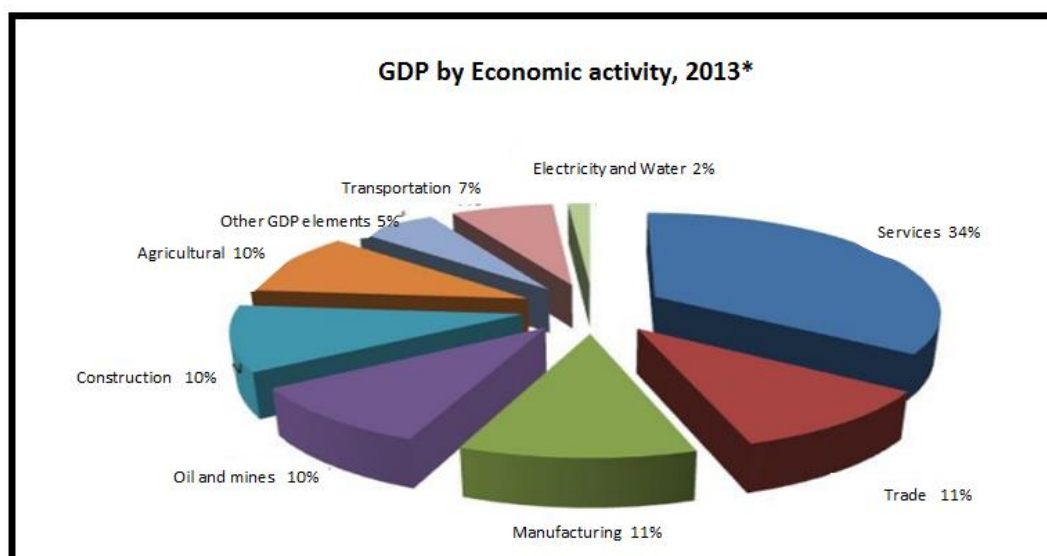
**Source:** Corporación Financiera Nacional CFN.2009. Entorno Macroeconómico. [Cited on: March 5, 2014] Available at: [www.cfn.fin.ec](http://www.cfn.fin.ec)

**Graphic No. 21. Ecuador economic sectors based on their contribution to GDP in 2011.**



**Source:** Corporación Financiera Nacional CFN.2011. Entorno Macroeconómico.  
 [Cited on: March 5, 2014] Available at: [www.cfn.fin.ec](http://www.cfn.fin.ec)

**Graphic No. 22. Ecuador economic sectors based on their contribution to GDP in 2013.**



**Source:** Corporación Financiera Nacional CFN.2013. Entorno Macroeconómico.  
 [Cited on: March 5, 2014] Available at: [www.cfn.fin.ec](http://www.cfn.fin.ec)

Within manufacturing, footwear has shown an important growth. This industry took advantage of the competitive advantages provided by the Government through the application of a compound tariff to footwear imports.

Other programs that have contributed are the provided credits by public banks in order to strengthen the industry and to supply the domestic market. The origin norms and the quality certification also contributed to improve labor conditions and knowledge.

According to the president of the National footwear Chamber, Liliana Villavicencio, since this measure was imposed in 2009, it has been produced about 30 million pairs of shoes; it has increased the number of domestic producers becoming about 5.000 and generated around 100.000 directly and indirectly jobs (La industria del calzado se duplicó en 5 años, 2013). It is important to know that in year 2007, 15 million pairs of shoes were produced, so it was obtained a growth of 100 per cent.

An example is the shoe factory 'La Mundial', whose beginnings elaborated common footwear and was distributed only at national level. However, thanks to the efforts of his manager and the Government contribution with the development of different export programs, the company managed to diversify their production and market.

Actually, it produced riding boots and its main export destination is the United States and Canada. In 2012 the company exported about \$ 850.000 thousand USD, and its next target is to win the European market (Botas de alta calidad en EE.UU. y Canadá llevan sello nacional, 2013).

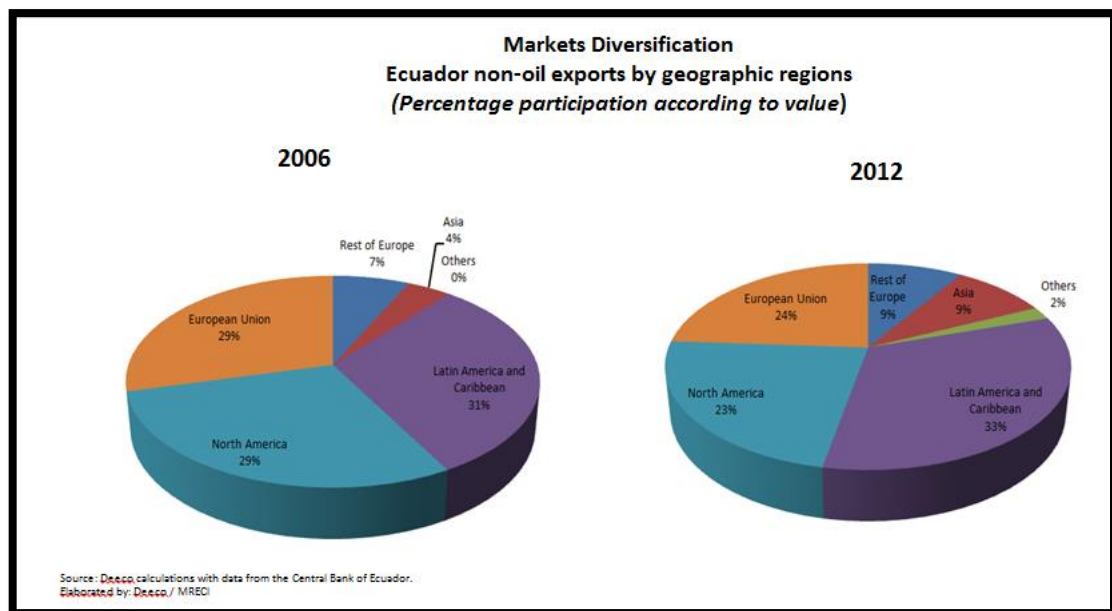
The pharmaceutical industry is another developed sector, because since 2009 it has a growth of 14 percent annually. Thanks to government investments with regard to infrastructure, clusters creation, trainings; the production of generic drugs has been sufficient to supply the domestic demand. Together with the imports restriction, the consumption became 60 percent more than the consumption of imported brand products,



actually maintaining this percentage (La industria farmacéutica mejora su tecnología y mantiene su crecimiento, 2012).

With the exports growth, the markets have also expanded. In the following graphic, their variation can be seen.

**Graphic No. 23. Ecuador markets diversification.**



**Source:** Ministerio de Relaciones Exteriores y Movilidad Humana. Diversificación de Mercados: Exportaciones no petroleras del Ecuador por regiones geográficas (porcentaje de participación según valor). [Cited on: March 5, 2014] Available at: <http://cancilleria.gob.ec/diversificacion-de-mercados-exportaciones-no-petroleras-por-regiones-geograficas/>

The main exporting countries are (Exportadores, Compradores):

- USA
- Russia
- Colombia
- Venezuela
- Germany
- Spain
- Italy
- Peru
- Chile
- United Kingdom
- Turkey
- Vietnam

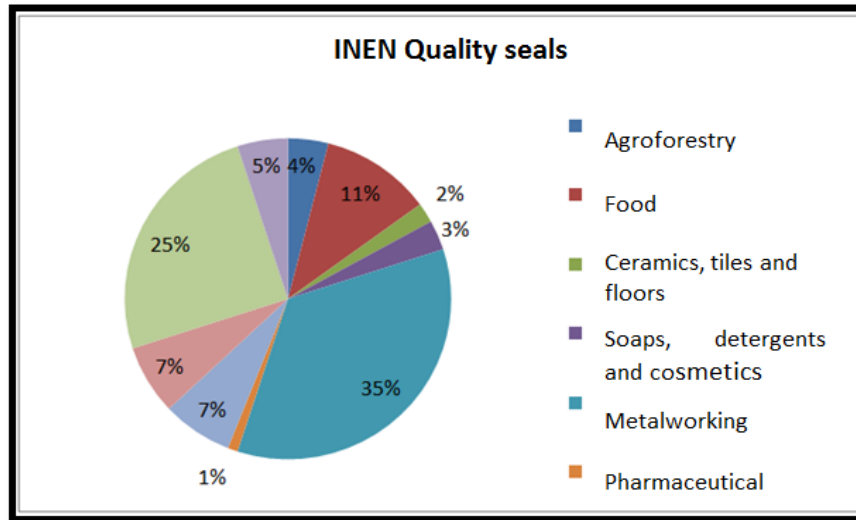
- Mexico
- Panama
- Dominican Republic
- Barbados
- Costa Rica
- Nicaragua
- Aruba

It should be noted that Ecuador has recovered trade relations with the principal market, being this The United States. Exports to USA have reached \$ 11.141 million USD in 2013 compared with 2012 where the value was \$ 9.336 million USD (Ecuador exportó a EE.UU. \$ 11.141 millones en 2013, 2014).

Certainly, the INEN work has also influenced in the development of the national industry. Through the programs, it has encouraged companies to implement quality systems to their production; so it has certified more than 280 products of sectors as food, metalworking, chemicals, and construction, among others, generating greater nationally and internationally positioning of Ecuadorian products.

The following graph shows by sector the issuing of quality seals:

**Graphic No. 24. Delivery of INEN quality seals for industrial sector.**



**Source:** Sánchez del Valle, 2013 p. 24;

**Elaborated by:** María de Lourdes Cárdenas.

Certainly, the use of trade measures caused pressure on the domestic industry, so many sectors took advantage of this situation to develop their technology, expand their businesses, increase the level of production and mostly diversify it in order to supply the domestic market and reach new markets.

Despite the domestic production and exports progress, the amount of imports has not declined as it was pretended when applying tariff measures. The following table shows its behavior, represented in millions USD CIF value.

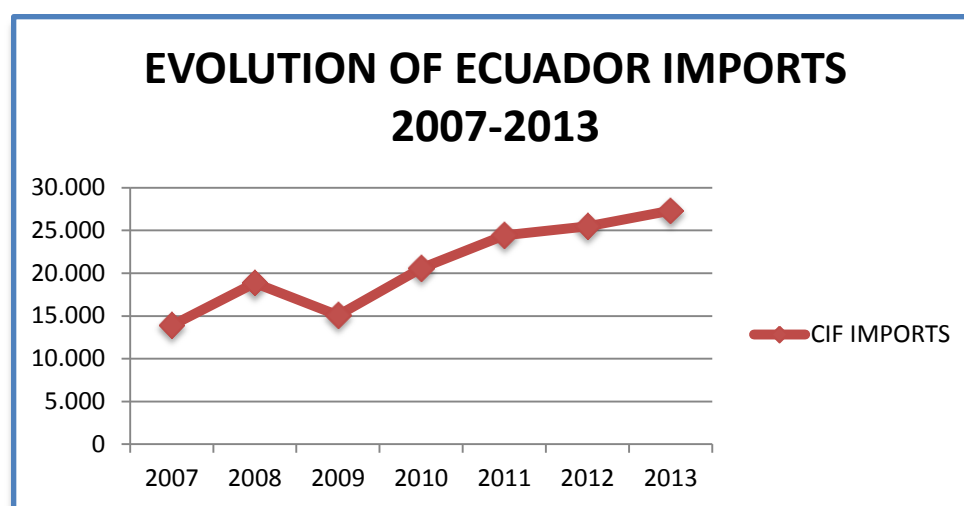
**Chart No. 19. Evolution of Ecuador imports, 2007-2013.**

	2007	2008	2009	2010	2011	2012	2013
CIF IMPORTS							
	13.893,4	18.851,9	15.089,9	20.590,90	24.437,60	25.476,97	27.304,62

**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54);

**Elaborated by:** María de Lourdes Cárdenas.

**Graphic No. 25. Evolution of Ecuador imports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54);

**Elaborated by:** María de Lourdes Cárdenas.

While the application of tariff measures had as main objective to promote the domestic industry through import substitution, the lack of technological development do not allowed in that period that domestic enterprises produce their own commodities. With the absence of the same, many companies continue importing raw materials to produce finished products.

The following table compare the total exports and imports, represented in millions USD.

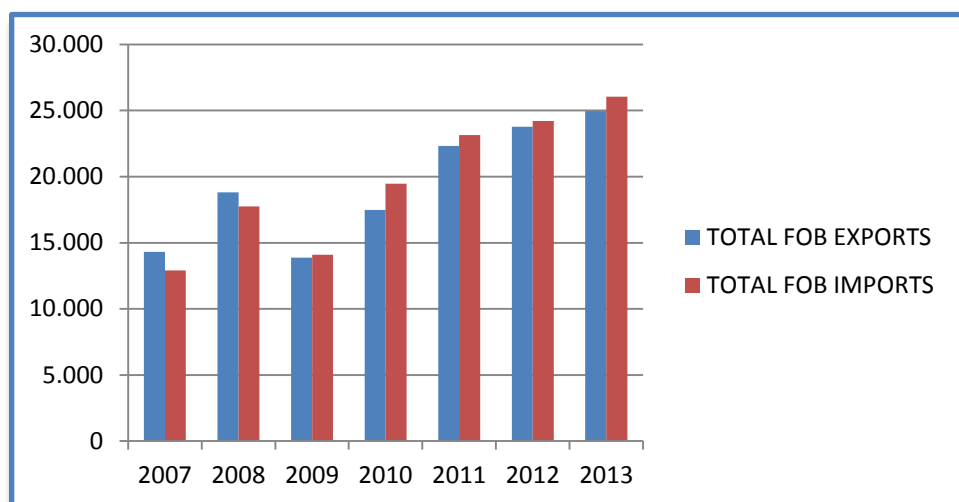
**Chart No. 20. Ecuador exports and imports, 2007-2013.**

	2007	2008	2009	2010	2011	2012	2013
TOTAL FOB EXPORTS							
	14.321,199	18.818,326	13.863,057	17.489,927	22.322,353	23.764,761	24.957,649
TOTAL FOB IMPORTS							
	12.895,174	17.415,216	14.071,455	19.278,713	23.088,116	24.181,569	25.979,624

**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54);

**Elaborated by:** María de Lourdes Cárdenas.

**Graphic No. 26. Ecuador exports and imports, 2007-2013.**



**Source:** Banco Central del Ecuador. Información Estadística Mensual No. 1.928, 1.938 y 1.944, 2012, 2013 y 2014 pp. 47-54);

**Elaborated by:** María de Lourdes Cárdenas.

The imports value has grown over the years and has even reached values higher than exports. Notably, this creates an imbalance in the trade balance and maintains an excessive capital outflow. Therefore, it can be considered that the application of trade measures can be effective in the long-term, as the Government has to focus primarily in potentiate domestic production, so companies will be able to make their own raw material, leaving its import.

## **Chapter No. 3: Analysis of successful economic models related to foreign trade policies in Asia, Europe and Latin America**

### **3.1 Asia: Republic of China.**

The first country to be analyzed in the Asian region is the Republic of China. Being the world most populous country with approximately 1.351million people (China, Datos), it has become a new economic potency. While the workforce has contributed to this growth, the use of trade policy has also influenced in its commercial development.

Initially, the Government adopted policies sought two objectives; the first was to attract foreign investment to promote technological development and the second objective was to promote the national-export industry development.

Without doubt the implementation of trade policies had favorable results for the country. Below the main used policies and the economic and trade obtained results will be mentioned.

#### **3.1.1 Trade Opening**

Since the creation of the Republic of China in 1949, it has governed a Communist system. However, in late 1978 trade reforms have been initiated, dropping their traditional system and adapting progressively to a capitalist economy. In 1980, the Government established the Special Economic Zones Law, which allowed the creation of The Free Zones, known as geographic areas that provide advantages over foreign trade.

These free zones were located in strategic areas such as Hong Kong and Taiwan. Thanks to the creation of this law, a territorial openness was generated, which promoted trade with the geographically nearby countries.

By the year 1984, the Government declared 14 coastal cities opened to foreign trade, this decision was complemented with the application of tariff reduction policies and lower trade barriers such as import and export licenses in order to attract more investment to the country. Initially, the strategy seemed to benefit foreign investors which covered most of the industry; however, the goal was that the products made by foreign companies had to be mandatorily exported, so the obtained earnings were distributed to the State and at the same time invested in national development (Apertura China).

Subsequently, the Government promoted policies directly applied to the national industry development. Firstly, it removed the private sector obstacles and focused on the restructuring of the equal rights of state-owned and private enterprises, in order to generate higher production, cooperation and variety.

According to the World Trade Organization WTO, China private sector consists of companies working on their own and family groupings engaged in industry and commerce. The restructuring of the rights allowed private companies to choose their administration methods, pricing of products, the type of raw materials, wage value, number of employees, etc. Thanks to this change, it increased the cooperation between public, private and foreign sectors.

As a result in 2004, private companies with foreign investment accounted 28 percent of the domestic industry, and its exports accounted 57 percent of total national exports. The investment boom caused that the industry sector grow by 14,7 percent, also benefiting the exports growth which increased by 28,9 percent (Examen de las Políticas Comerciales, Informe de la República Popular China, 2006 p. 9).

According to CEPAL data, between the year 1980 when trade liberalization began and 2005, China GDP growth averaged 9.6 percent annually (Examen de las Políticas Comerciales, Informe de China, 2010 p. 6). The inclusion of China in the world market was well received, as several Europe region countries became interested in its products, especially for the low prices with competing in the market.



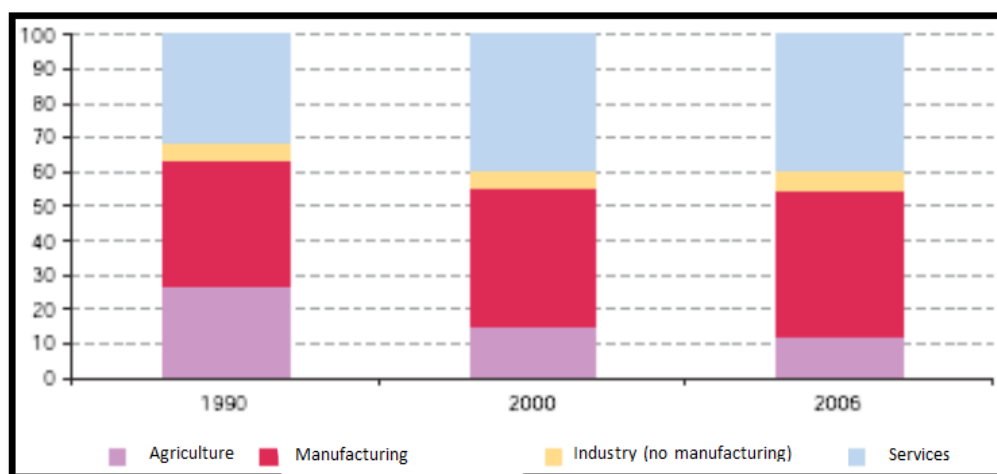
### 3.1.2 Going Abroad

Another trade policy was called ‘Going abroad’, through which the Government boosted national companies to invest and participate in the economic, trade and technological cooperation with foreign countries. This strategy has the following objectives:

- **Commodities Provision**

Through cooperation agreements in technological innovation and trade, the Government sought to ensure the supply of raw materials for companies and its large-scale production. The following graph of GDP shows the percentage of agricultural, industrial and services sectors related to GDP contribution:

**Graphic No. 27. China: GDP by economic sectors in the years 1990, 2000 and 2006 (%)**



**Source:** Díaz Julio. 2009. Las inversiones de China en el exterior (II) p. 1. [Cited on: December 29, 2013] Available at: [http://www.politica-china.org/imxd/noticias/doc/1258630720LAS\\_INVERSIONES\\_DE\\_CHINA\\_EN\\_EL\\_EXTERIOR\\_II.pdf](http://www.politica-china.org/imxd/noticias/doc/1258630720LAS_INVERSIONES_DE_CHINA_EN_EL_EXTERIOR_II.pdf)

As it is shown, the manufacturing industry is the most developed. Taking into account the dependence of Chinese companies to raw materials, the Government through the

formalization of economic agreements sought to ensure direct control over the value of these resources. Usually, these come from mineral-rich countries such as: Canada, Australia, Latin America, Middle East and several countries in Africa and Central Asia (Ibid).

In November 2004, China and the Association of Southeast Asian Nations ASEAN, formalized a Goods Trade Agreement for Economic Cooperation. Similarly, China in 2006 formalized several Free Trade Agreements FTAs with over 30 developing countries owners of raw material (La República Popular de China y América Latina y el Caribe, 2012).

Among the main Free Trade Agreements are:

- China-Pakistan FTA
- New Zealand-China FTA
- China-Singapore FTA
- China-Chile FTA
- China-Peru FTA
- China-Costa Rica FTA.

China has become the second partner of Latin America, as its major imports such as agricultural, mineral products and fuels cover 77,6 percent of imports.

- **Search for new markets**

Through this strategy, the Government intends to expand Chinese companies production to new countries, because as a result of new foreign competitors emergence in the country, many of the national companies suffered a profit margins decline and productive capacity excess. The Government canceled the tax rebates on exports, to stop the high rate of foreign investment.

Similarly, it imposed temporary tariffs on exports of products derived from coal, oil, chemicals, and materials such as iron in order to conserve resources and supply the domestic market, reducing other derivatives products imports.

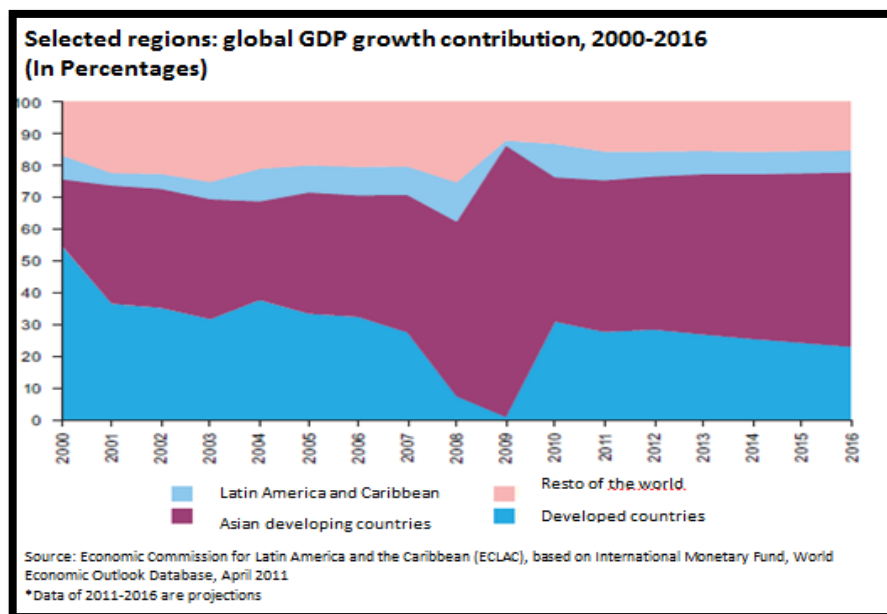
Basically, international cooperation promotion was used for Chinese products to enter new markets through third countries. For example in 2001, the European Union granted preferential access to textiles from Cambodia, so Chinese companies moved their production to this country in order to offer a product made in Cambodia with Chinese technology.

### **3.1.3 Entry to WTO**

In 2001, the Chinese Government decided to join the World Trade Organization WTO, which allowed the country to maintain a steady economic and commercial growth. WTO studies showed that China GDP increased from \$1.324 million in 2001 to \$ 2.225 million in 2005 (Examen de las políticas comerciales, Informe de la República Popular China, 2006 p. 5).

Similarly, the World Bank data indicated that between the year 2000 and 2004 China economic growth has contributed on average 13 percent to world economic growth. The graph below shows the GDP contribution of different regions, and projected data to 2016 where China participation is distinguished with a possible contribution of 55 percent on global growth.

**Graphic No. 28. Asian region participation in the world GDP growth.**



**Source:** CEPAL. 2012. La República Popular de China y América Latina y el Caribe, Diálogo y Cooperación ante los nuevos desafíos de la economía global p. 5. [Cited on: December 29, 2013] Available at:  
<http://www.cepal.org/publicaciones/xml/1/47221/ChinayALCesp.pdf>

### 3.1.4 Tariff and Non-Tariff Measures application.

The formalization of commercial agreements brought some disadvantages to the Chinese economy, because it is said that since it is member of the WTO, it has imposed to China 2.743 antidumping measures. In this situation, the WTO applied the Adhesion Protocol commitments, where it was decided that by 2005 China had to remove non-tariff measures such as import licenses, import quotas and import tendering in order to carry peacefully trade relations between participating States.

As consequence of the non-tariff barriers removal, in 2005 China Trade Balance suffered major imbalances, and by the end of year 2012 and beginning of 2013 the economy was affected with a decrease of 7,5 percent. For this reason, the Government had to impose new measures to the EU imports.

## **Tariff measures and Taxes**

Before mentioning the measures, it is important to know that to export to China there are 3 types of taxes that products have to pay:

- **Customs Tariffs**, considered as import and export rights covering around 8.238 products.
- **The Value Added Tax VAT**, which percentage is between 13 percent and 17 percent, depending on the products use and functions.
- **Special Consumption Tax**, which is applied to luxury goods as globally recognized brand watches, automobiles, motorcycles, petroleum and using high technology products.

One of measures was the rise of percentage tariff to imports of products used for construction. This measure was applied because of this product imports excess, as it began to affect the production of domestic manufacturers which offered their product at a higher price than the imported ones. However, to be absolutely necessary for the construction of new power plants and the renovation of electricity infrastructure, it has to be necessarily imported.

Specifically, exports of stainless steel tubes from EU were affected with the implementation of this measure, because in addition to being the principal supplier, trading prices were low, that even caused the impression that it was sold below its production costs (UE vs China ante OMC, por aranceles sobre tubos de acero, 2013).

Successively, the Government implemented a temporary tariff rates around 780 imported products, including infant formula powder, wheat, alfalfa, vegetables, fruits and especially medical technology, in order to develop production and the national supply. In this case, as being a large population and not having all necessary resources to supply the same, temporary tariff rates are applied, keeping imports in smaller quantities.

The increase of tariff rates was not the only measure, because the Government removed import tariffs and taxes related to equipment whose function is the extraction and refinement of coalbed methane carbon, in order to exploit and use it as raw material.

### **Import Licensing**

Chinese government set as a requirement several import licenses, which must be submitted by all countries who want to export, including countries that maintain trade relations with China. For import licenses, the applicant must declare the products use and composition. In the case of mechanical and electrical products, it must complete an application form where a product manufacture date certificate must be attached; and finally a copy of the exporter merchant license must accompany.

Import licenses are divided into 3 categories (Políticas Comerciales, por medidas):

- **Import Licenses** This general category is directed to products and substances that cause damage to the ozone layer, and mechanical and electrical products that are in used condition. These products and their derivatives cover 87 tariff headings.
- **Automatic import licenses.** In this case, automatic licenses apply to products that are not constrained, but need to be monitored; for example, flammable materials or chemicals that may injury the population welfare. As being dangerous products, import license is granted automatically without making the appropriate arrangements.
- **Import tariff quotas.** They are applied to 45 tariff headings corresponding to products such as grain, cotton, wool, chemical fertilizer, sugar, and their respective derivatives.

## **Phytosanitary Measures**

This measure was specifically established to control food safety in order to maintain the health and welfare of the population. As it was mentioned, because of industrial development agro-food production was dropped decreasing domestic supply of fruits, vegetables and meat. As being a country with a big population, domestic products do not supply the domestic market, so it has to be imported.

In response, the Government seeks to recover agricultural development, imposing certain import barriers as the application of phytosanitary certificates. Among the products that have to submit the certificate are: soy sauce, vinegar, canned vegetables, fish and seafood toppings, coffee and other food additives such as calcium, sodium, zinc, etc.

The implementation of trade policies has generated advances in China economic, commercial and technological growth. Some of the most notorious results are the following:

- It was obtained a high level of gross capital formation
- A significant growth of total productivity
- A significant increase in exports relative to GDP
- High rates of foreign investment
- High participation of industries in total exports
- Development of the population conditions
- Increased international participation

Without doubt, China has become one of the major economic powers, winning great participation in the international market. The commercial policy applied by China promoted a free, open and stable trade system, which generated that Chinese economy flourish becoming now in one of the most powerful, not only in the Asian region but the entire world.

## **3.2 Europe: Portugal and Ireland**

### **3.2.1 Republic of Portugal**

The second country to analyze is the Parliamentary Republic of Portugal. Initially, its economy was considered primary, because most of the population was dedicated to farming and fishing. Besides of being one of the most important worldwide producers of cork and paper, and having one of Europe's largest forest resources, the country did not generate enough economic resources to keep its economy stable. In this situation, the Government decided that a process of industrialization was what the country needed.

Portugal has faced some economic crises caused especially by the dependence on exports to the European Union, by reliance on primary resources and the low level of industrialization. However, since the implementation of trade policies, the country presented a considerable economic growth, which transforms its primary production in a diversified one. The geographic location also benefits the country because as being next to the Atlantic Ocean, it worked as the main entrance to the European, African, and Asian markets.

Actually, Portugal is a country with a high technological level and has been able to improve its economy through the development and diversification of the domestic industry. Now it will be mentioned some of the measures used by the Government as a tool for reach economic development.

#### **3.2.1.1 Foreign Investment**

Through foreign investment, the Portuguese Government searches for the country industrial and technology development in order to ensure the national supply, the production diversification and the new markets access. In 1970, when the European economy was in recession, with the aim of attracting foreign capital, the Government



promoted the low-wage costs offered by the population. Thanks to the intervention of the investors in the country, it was achieve a long-term production diversification.

The city of Lisbon represented a key for this development because as being the main port, it improved its infrastructure to attract the investors attention that already comes from other regions. As a result, the city began to grow in the commercial sector, and today, it becomes one of the most important and commercial Portugal cities.

Thanks to foreign investment, the country developed several important sectors for its economy. The following chart shows the percentages that some sectors had related to the contribution to the GDP between the year 2007 and 2010.

**Chart No. 21. Economic sectors percentage apportionation to Portuguese GDP.**

<b>GDP COMPOSITION</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	
<b><u>ECONOMY SECTORS:</u></b>					
<b>Agricultural</b>	2,4	2,3	2,3	2,3	
<b>Industry</b>	14,6	14,0	13,0	13,1	
<b>Construction</b>	7,3	7,4	6,6	6,5	
<b>Trade, Restaurants and Hotels</b>	18,4	18,5	18,8	19,0	
<b>Transport and Communications</b>	8,4	8,6	8,1	8,1	
<b>Electricity, Gas and Water</b>	3,4	3,4	3,8	4,0	
<b>Finance and Homeownership</b>	15,7	16,0	15,9	15,8	
<b>Other services</b>	29,8	29,9	31,3	31,1	
<b>TOTAL</b>	100	100	100	100	

**Source:** Ministry of Economy and Competitiveness. Portugal, Economic Structure.

[Cited on: February 24, 2014] Available

at:[http://www.oficinascomerciales.es/icex/cda/controller/pageOfecomes/0,5310,5280449\\_5296126\\_5296234\\_0\\_PT,00.html](http://www.oficinascomerciales.es/icex/cda/controller/pageOfecomes/0,5310,5280449_5296126_5296234_0_PT,00.html)

As it shows, the sectors of industry, trade and services are the ones that mostly contributed to GDP in the mentioned years, while the agricultural sector had a lower contribution because of the industrial and technological development.

### **3.2.1.2 Trade opening**

The entry of Portugal into the European Union in 1986 was one of the most influential policies to achieve national development. Through trade relations and cooperation among member countries, Portugal increased the technological development and the creation of new industries.

With the access to the European Union, Portugal participated in the free trade of goods and services among member countries, and in the year 1993 it benefited from EU funds which contributed to the restructuring of its backward economy.

Through trade opening, the country formalized several trade agreements and international cooperation, being the most important:

- The Stability and Growth Pact. It was concluded between the European Union States members, with the main objective to strengthen the stability of the product and services prices in order to generate a sustainable economic growth.  
This agreement join with foreign investment generated several economic benefits, being the financial services sector benefited the most, followed by the business activities, construction, transportation and finally the electricity, gas and water supplier sectors.
- Convention on temporary admission ATA, the objective of this Convention is to ensure the free transit of goods and their temporary admission between the European Union members. Circulating products are exempt from the taxes payment, as having to present only control documents as: commercial invoice, transport document, certificates of origin, phytosanitary, among others.

- The Trade and Cooperation Pact. It was concluded between some countries of Africa, the Caribbean and Pacific region; it was mainly focused on trade issues. Through this pact, Portugal became the biggest exporter to Angola, increasing its exports in a 7,1 per cent in the first quarter of the year 2012. The products imported by Angola were: wine, rice, palm oil, wheat flour and parts of machines. In regards to wine, Angola is the biggest importer of this product outside of the European Union (Angola lidera la compra de vino en Portugal).
- Portuguese language countries Community. On July 17, 1996, Portugal begins to form part of the PLCC, with the objective of achieving a commercial interaction based on economic financing and the free good transit or with low tariff rate. In 2012, the olive oil was the most exported product to Brazil, followed by codfish, oil and wine. Exports to this country presented a growth of 19,5 percent compared to exports of the year 2011 (Portuguese exports to Brazil with record of \$999millones in 2012, 2013).
- Lisbon Strategy. It concluded in the year 2000 with the members of the European Union. Through it, Portugal offers to the International Community a dynamic space, ensuring the economic and industrial growth. This strategy proposes the creation of an information society, quality education, economic reforms in interaction with the implementation of macroeconomic policies and the development of a sustainable public finance system.

With regional agreements, the access barriers to the Portuguese market were few, so the Government strategically promoted an open market to any type of business relationship and economic cooperation to contribute in national development.

### **3.2.1.3 Trade Measures**

Although the entry of Portugal to the European Union promoted the industrial, technological and economic development, it somehow affected the domestic industry. As it was mentioned, the technological development in first place caused that the population focus on works related to the technology industry, generating the import rise

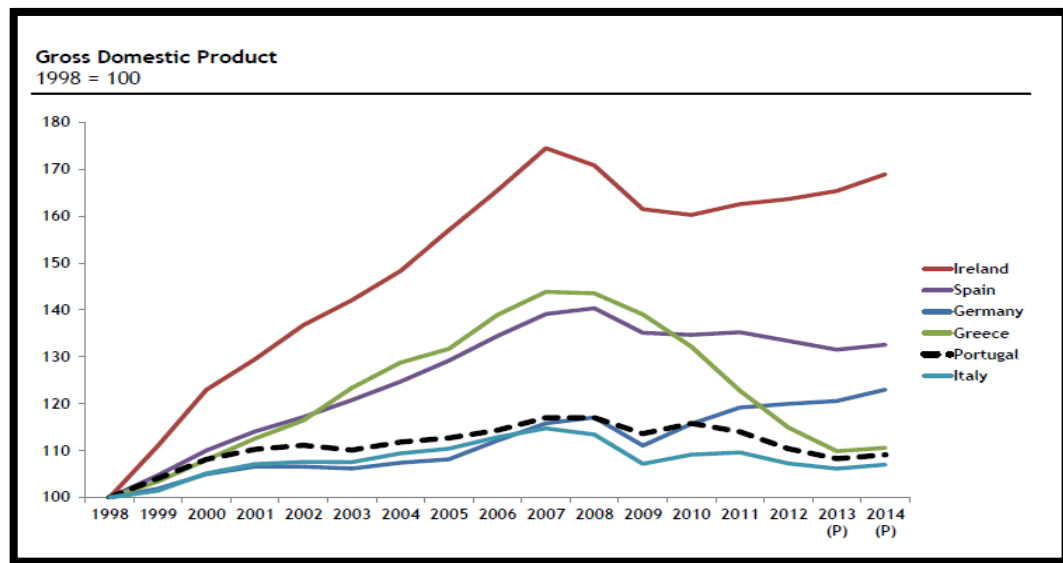
of agro-food products. Secondly, it generated greater dependence on raw materials, which had to be necessarily imported to be able to sustain the industrial work.

As being member of the European Union, Portugal had to comply with the application of various trade measures:

- To adopt a common external tariff on all the imported products from other countries that were not members of the European Union.
- To remove any trade barriers imposed on goods and services free movement among countries members.
- To eliminate subsidies in order to generate a fair competition.

Since 2010, the Portuguese economy presented a trade imbalance caused by the influence of a European crisis, the taken measures and the presence of major competitors covering a big part of the market, which produced the exports decline. The following graphic shows the low growth of the Portuguese economy since 2010 (Gaspar Vítor, 2013 p. 7).

**Graphic No. 29. Portugal GDP behavior.**



**Source:** Gaspar Vítor. 2013 Adjusting in the euro area: the case of Portugal p 7 [Cited on: March 30, 2014]. Available

at: <http://www.portugal.gov.pt/media/914582/20130411%20mef%20adjusting%20portugal%20trinity%20college%20dublin.pdf>

The Government, in order to increase exports and domestic production, applied some trade measures under the European Union regulations. They included the increase of tariff rates, import licensing, quantitative restrictions, antidumping duties and tariff quotas.

For the non-European Union imports, Portugal increased the common customs tariff value. The tax value on industrial products had an increase of approximately 4,2 percent and in the case of agro-food products and textiles, it increased in a 17,3 percent. The decision of the Government to increase the percentages has the objective to limit the imports of these sectors as these were affected by 75 percent (Trámites aduaneros para la importacion a Portugal).

Products such as cigarettes, alcohol, mineral oils, fuels and others are subjected to pay the Special Consumption Tax and the Value Added Tax. In the case of vehicles, they pay an additional tax, known as Vehicle Tax ISV.

Within non-tariff measures are sanitary certificates and import licenses, which are required for the fruit, vegetables, bananas and wine imports. Flowers have more control, because Portugal requires several environmental certificates and licenses for their import.

It is important to mention that at international and European Union level, the products that require import licenses to enter the country are:

- Products and technologies of double use: includes products such as software, computers, technological equipment, scientific and technological knowledge known as intangible transfers. This license is required in order to control the proliferation of nuclear weapons or any other kind of scientific, technological, and intellectual weapon that affects the common welfare.

In the same way, to export such products, Portugal has to obtain an export license. Specific licenses are emitted depending on the product work type; global license depends on time and the category of products and the community export general license which is the one that the European Union members work.

- Agricultural products, in this case the licenses, both import and export, are directed at products such as cereals, rice, sugar, fruit and vegetables, meat, oil eggs, among others.
- Drugs precursor products: through this license, it is intended to get more control over the trade of chemical products that may be useful for the psychotropic substances manufacture. In the same way, through this it is generated a products control measure in export issues.
- Steel products. This license is directed to steel products, which are complemented with quantitative restrictions in order to promote domestic production.

- Textiles. In this case import licenses are requested to third countries products, mainly from China. Similarly, tons quotas were established for textile import.

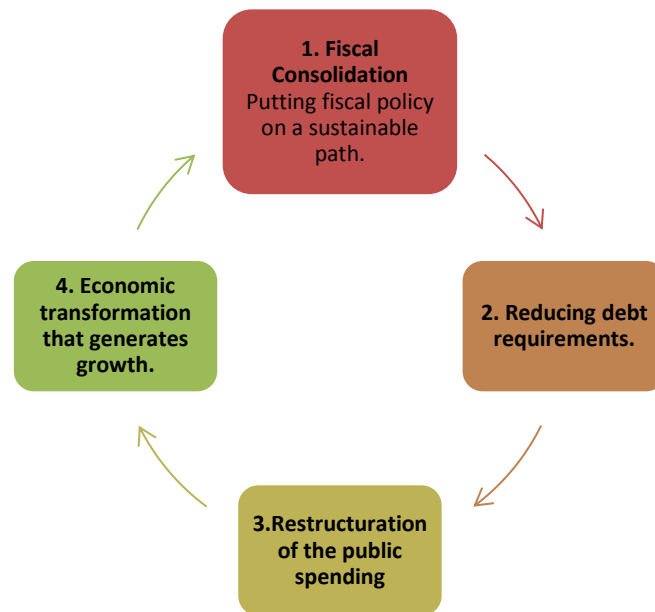
Other non-tariff measure that has allowed the import control is the implementation of the international standard NIMF- 15, which started in March, 2005. This norm controls the goods packing and pallets especially made of wood, in order to prevent the introduction of pests associated with the materials used in the transport of goods. Therefore, to export to Portugal it is necessary to obtain this control quality standard applied to packing.

The tariff rate increase, the import licenses, and the amounts restrictions have reduced the imports levels and promoted the domestic production. It is important to mention that as being part of the European Union and several trade agreements, the application of tariff measures is not common within the agreed parameters.

#### **3.2.1.4 Economic Adjustment Program**

Additional to the application of trade measures, the Government created the Economic Adjustment Program which main objective is to protect government funding, so it can gradually achieve a market imbalances adjustment.

**Graphic No. 30. Portugal Economic Adjustment Program Operation.**



**Source:** Gaspar Vítor. 2013. Adjusting in the euro area: the case of Portugal. [Cited: March 30, 2014] Available

at: <http://www.portugal.gov.pt/media/914582/20130411%20mef%20adjusting%20portugal%20trinity%20college%20dublin.pdf>

The application of this program tries to achieve a balanced budget, the public debt reduction, the financial stability and the creation of an open and competitive economy, which generates a positive impact and promotes Portugal as an attractive place for foreign and domestic capital investment.

Through the application of tariff measures, trade opening, foreign investment and the Economic Adjustment Program, it was able to develop Portugal economy and trade. For example, tomato production and its derivatives, fishing and wine exports especially from the Oporto area were the principal sectors, being the Portugal wine recognized at worldwide.



Similarly, since 2005 the textile industry increased its exports especially to the U.S. market, and by 2010 the Portuguese economy grew thanks to exports to this country. Other markets are countries of the American continent which accounted for 7,6 percent and some African countries reached 6,6 percent of total exports. However, the 75 percent of total exports were to the European Union (Principales sectores de la economía portuguesa pp. 2-3).

Through the international participation, it has been developed industries such as the energy sector, particularly focused on alternative and renewable energy. At European Union level, Portugal ranked the fourth place of wind energy development, which has been promoted through the Energy project of Portugal.

Many of the industries have gone through technological innovation, especially the automotive, aerospace, the communications and information technology industry. The country has also successfully expanded into biotechnology and electrical and electronics industry. Thanks to technological development, the International Iberian Laboratory established a program in the city of Braga for the development of nanotechnology.

Similarly, in Portugal there is the known brand of Bosch which turned the country into the principal radio and electronic products for vehicles manufacturer of Europe, and now Portugal is a world leader in the production of biometric systems represented by the company Master Guardian.

Its infrastructure development allowed Portugal to be part of Star Alliance, a major airline, forming TAP Portugal which air base is located in Lisbon. Similarly, with the objective of being the European market main access, the Port of Sines has a modern infrastructure that facilitates trade access.

To expose the resources used by the Portuguese Government to achieve economic development, it can notice that they gave favorable infrastructure, commercial and industrial results. At the same time this development included the social issue as it

improved the life quality of the population, generating major sources of jobs through the domestic industry promotion.

### 3.2.2 Republic of Ireland

The third country to be analyzed is the Republic of Ireland, which 30 years ago was considered one of the Europe least developed and poorest countries. According to a research done by José Ramón García, Ireland has an economy based in the following sectors:

- **Agriculture.** Despite being one of the activities that has been in the background, a part of the population is still focused in producing and exporting products such as milk, beer, butter, cereals, mushrooms, etc.
- **Fishing.** Likewise, it represents an important income for the economy. Each year about 278.000 tons are fishing, of which 91 percent are exported.
- **Industry.** Which formed one of the most important and decisive part in the Irish economy, occupying the majority of the working population and also is the activity that exported most goods.
- **Services.** This sector had growth in the 90s when the government began to promote tourism, the telecommunications development and the financial system. Tourism grew through the implementation of marketing and advertising, promoting natural and cultural resources of Ireland. Today the services sector accounts a big quantity in the GDP contribution.
- **Mining and natural resources.** This sector has remained in the exploding of raw materials such as sand, stone, gravel and mainly tin and lead. It is known that Ireland is the largest lead producer in the world.
- **Foreign sector.** Focused on the development of trade relations, it seeks to formalize economic and trade agreements around the world that contribute to the country development. Ireland is especially related to the United States and the United Kingdom by its geographical proximity, and because they are its main markets.

Actually, the Irish economy has become recognized worldwide thanks to the technological, industrial and social development. Below are mentioned some of the measures that were used by the Government to promote such development.

### **3.2.2.1 Foreign Investment**

By the fifties with the aim of developing the industries and get business growth, the Government opted to promote trade opening encouraging companies to compete internationally. To achieve this objective, it encouraged foreign investment in the country which gave favorable results, as in 2004 there were approximately over 1.100 multinational companies established in Ireland. Most of these are from U.S. and have become world leaders, especially in pharmaceutical and medical production (El desarrollo económico de Irlanda, una transformación sorprendente, 2004).

In regard to financial sector development, it was created the International Financial Services Center IFSC, which aimed to convince international firms to establish their subsidiaries in Ireland. With the creation of this program, several international banks, treasury and insurance operators settled in the Irish capital, which contributed with the independence of the national stock market from the British one in 1995 (Irlanda y el milagro de su modelo de crecimiento p, 4).

During the past 10 years, international companies involved in software, pharmaceutical and machinery production have been installed in the country primarily attracted by low taxes offered by the Government. Actually, investments in the country continue growing as economic and technological development result; it has ranked Ireland as the best place to establish modern industries. Among some internationally recognized companies that have been established in the country are (El desarrollo económico de Irlanda, una transformación sorprendente, 2004):

- Microsoft
- Citigroup
- Abbott
- Oracle e Ingersoll

- Intel
- Rand
- Genzyme, a company dedicated to biotechnology, which is currently building one of the most worldwide advanced technology centers.
- Wyath, who built one of the world largest pharmaceutical campus in Dublin.

Foreign investment has contributed to the decline of unemployment rate, and has influenced internally with improvements in the business and industrial infrastructure, and externally with the business expansion.

With the industry growth, it took a major requirement in the development and specialization of human capital. For this reason, the Government implemented the Knowledge Based Environment program, through which professionally educates the population in any academic field, including issues related to the production and environment care.

At European level, Ireland is considered as the country with the largest number of young people and its population as one of the best academically educated. Through educational programs, human resource is considered highly and flexible to any professional field.

Certainly, this topic was supplemented with foreign investment, attracting the attention of more investors in order to exploit the intellectual advantages, and with the objective of improve and create new technologies.

### **3.2.2.2 European Union Access**

Ireland became part of the European Union on January 1, 1973, with the aim of improving its economy, trade and international relations. The first economical result was the exports increase, which was achieved through institutional arrangements. This allowed the free entry of Irish products to all the European Union countries members.

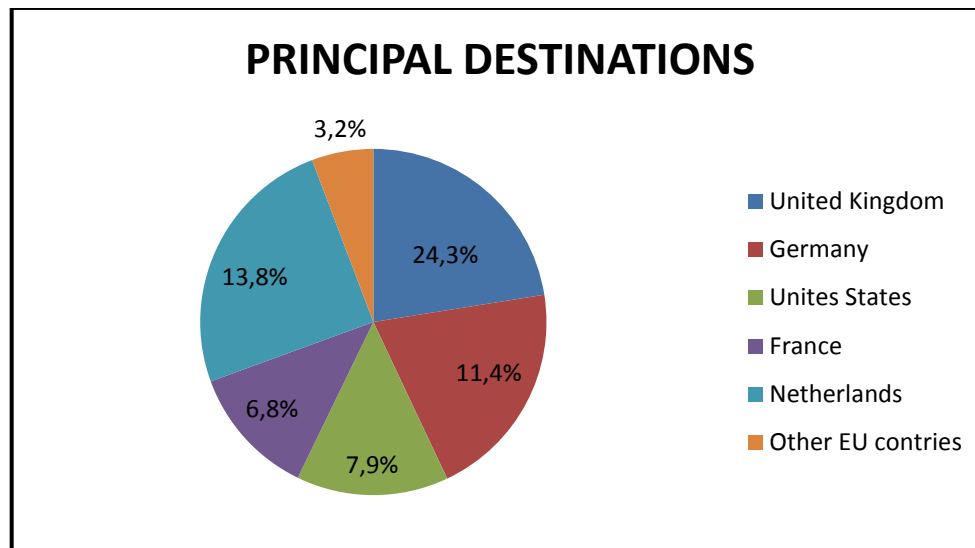
According to a study of José Ramón García, the exports growth enabled the economy to grow at a faster rate: in the period from 1994 to 1997, the Irish economy grew at a 4 percent rate per year, and from 1997 to 2000 grew at a 7 percent rate per year. Thanks to this steady growth, Ireland became known as the Celtic Tiger.

Through the European Union the country participated in some trade agreements, being the most important (Irlanda: Apertura Internacional):

- Economic, Commercial and Financial Cooperation Agreement. Concluded in 1980 between the European Union and the Southeast Asian Nations Association ASEAN.
- Science, technology and energy resources cooperation, investment and trade Agreement. Concluded between the European Union and the Gulf Cooperation Council members, including Egypt, Iran, Lebanon, Syria, Yemen and Saudi Arabia.
- Trade Agreements and Generalized Preferences System, signed with several Latin America countries.
- Ireland is member of the Temporary Admission Convention, which at European Union level allows goods free movement and its temporary admission. For the mobilization of goods, it has to show a single document called ATA that is regulated by international agreements.

The study of José Ramón García indicates that through commercial interaction Ireland diversify its markets, which can be seen in the following graph:

**Graphic No. 31. Ireland principals export destinations**



**Source:** García Méndez, José Ramón. Irlanda y el milagro de su crecimiento económico;

**Elaborated by:** María de Lourdes Cárdenas.

It should be noted that Ireland main export destinations are the United States, the United Kingdom, France, Germany and Switzerland.

### **3.2.2.3 Trade Measures**

To protect some domestic industry sectors, Ireland applies a Common External Tariff for third countries. For example, imports of manufactured goods pay a tariff between 5 and 17 percent. Also, it applies 10 percent which corresponds to the Value Added Tax to the import of raw materials, supplies and materials for the clothing manufacture. Finally, the Special Consumption Tax is applied on alcoholic beverages, fuel, cigarettes and televisions.

In the case of non-tariff measures, the European Union member applies this type of trade barrier in order to protect the areas that are affected by foreign competition. Applications for import licenses, certificates and restrictions on imports and exports are the most used measures. Ireland applied these measures to agricultural, textiles and steel sectors.

In regards to the textile sector, quantitative limits have been imposed on certain products from Argentina, Peru, Uruguay, and Brazil. Also, an automatic license was required for imports of steel and iron materials and products. In the case of agricultural products, it was required a phytosanitary certificates, especially for plants, vegetables and cut flowers imports.

Additionally, flowers have to be subjected to an observation measure and also require an automatic license. Finally, perfumes, alcoholic beverages, and chemicals required a dangerous goods certificate.

Voluntary export restrictions were applied to products such as sheep and goats meat, mainly from Argentina and Chile. Through the voluntary restriction, Ireland tries to develop certain sectors, in exchange for conceding tariff preferences to other products from the exporting countries.

With the implementation of these measures, it has succeeded in stabilizing the economic situation of the country. The following chart shows the behavior of imports since the year 2008.

**Chart No. 22. Ireland International Trade, 2008-2012.**

<b>Foreign Trade Indicators</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
<b>Goods Imports</b> (million USD)	83.965	62.704	60.277	66.606	62.504
<b>Goods Exports</b> (million USD)	125.720	115.928	116.497	125.740	116.822
<b>Services Imports</b> (million USD)	110.703	104.199	107.155	115.679	110.374
<b>Services Exports</b> (million USD)	99.265	92.112	97.905	112.750	114.598

**Source:** Banesto. Las cifras de comercio exterior de Irlanda.[Cited on: January 23, 2014] Available at:<http://comercioexterior.banesto.es/es/elija-su-mercado-objetivo/perfiles-de-paises/irlanda/cifras-del-comercio>

As it was seen, the value of imports has decreased for the application of trade measures. While these depend on the approval of the European Union, the World Trade Organization WTO, and especially of the trade agreements, in the case of Ireland its application gave favorable results in its domestic industry.

### 3.2.2.4 Results

Despite of the economic development, in recent years Ireland has faced a severe economic crisis caused by the influence of the European crisis. In 2012, the GDP had a short growth of 0,4 percent. The following chart shows the behavior of GDP since 2010, where the crisis deepens, until the year 2014 represented in an estimated value (El context económico de Irlanda).

**Chart No. 23. Ireland GDP behavior, 2010-2014.**

Growth Indicators	2010	2011	2012	2013	2014 (e)
GDP (billions USD)	209,78	226,24	210,86 e	220,89 e	231,55
GDP (annual growth in %, constant prices)	-1,1	2,2	0,2 e	0,6 e	1,8

(e): estimated value.

**Source:** Banesto. Las cifras de comercio exterior de Irlanda. [Cited on: January 23, 2014] Available at: <http://comercioexterior.banesto.es/es/elija-su-mercado-objetivo/perfiles-de-paises/irlanda/cifras-del-comercio>

GDP growth was reflected in the trade balance, as the main exported products were: machinery, transport equipment, computer components, chemicals and pharmaceuticals products and especially the increase of services exports (Irlanda y el milagro de su modelo de crecimiento p. 3). Certainly, this sector together with the industry sector have mostly contributed to the economic growth.



Similarly, the growth and diversification of exports, the application of a model based on the balance of public finance plan, the incentive for private consumption, the promotion of national industry and especially the use of trade measures, have allowed the country to maintain its economy active; but mostly, they have allowed Ireland to establish as a global leader in technology, medical and software production.

### **3.3 Latin America: Republic of Chile.**

Worldwide the Republic of Chile is considered a developing country; however, in Latin America is one of the most influential countries as its per capita GDP is among one of the highest in the region. Chilean economy is mainly based on agriculture, trade, mining and tourism. Similarly, the country has a lot of natural resources, which have been used by the Government in order to promote the development of the national industry.

Initially, Chile economic development was based on the application of the following policies:

- Creation of a financing fund. It motivated companies to invest in research issues, technological and industrial development. At the same time, this financing fund operated as a strategy to attract foreign investment to the country. Thanks to government support, foreign companies especially interested in technological development established research centers in the country.
- Small and medium-size producers financing. Thanks to the financing funds the quantity and quality of production increased, contributing directly to the exports growth which increased its competitiveness regionally.
- Creation of business programs. Thought this, it was promoted the clusters creation in order to group different producers with the same activities and economic interests to achieve economic and technology cooperation, to promote the related sectors development.

In the 90s, these policies were applied with the intention of encouraging domestic production. The food and manufacturing industries were the most benefited, as the government taking advantage of its potential was focused on developing the production of wood and other products such as fruits, vegetables and their derivatives.

The economic results were invested in the country infrastructure and communication network development, with the aim of improving the working conditions of Chilean producers and provide a better place and service to foreign investors.

Now, it will be mentioned the trade policies pursued by the Chilean Government and its results.

### **3.3.1 International Opening**

Through international trade openness and interaction, Chile has promoted its products through export. For this, the Government has signed the following trade agreements at regional and international level (Acuerdos Internacionales de Chile):

- MERCOSUR. Chile participates as an associated country in the Southern Common Market, in order to learn and adopt policies implemented by other model economies.
- Commercial Regions Association. Since 2003, the country became part of the ACR, with South Korea, China, Panama, Peru, Colombia, Japan, and Turkey.
- It is part of the Latin American Integration Association ALADI, and the Economic Agreement with New Zealand, Singapore and Brunei.
- Chile participates in the Economic Agreement with the European Union, which was formalized in 2002.
- It is part of Institutions and International Organizations. The country has joined to major international institutions such as the World Trade Organization WTO, World Bank WB, IBRD International Bank for Development, among others. The

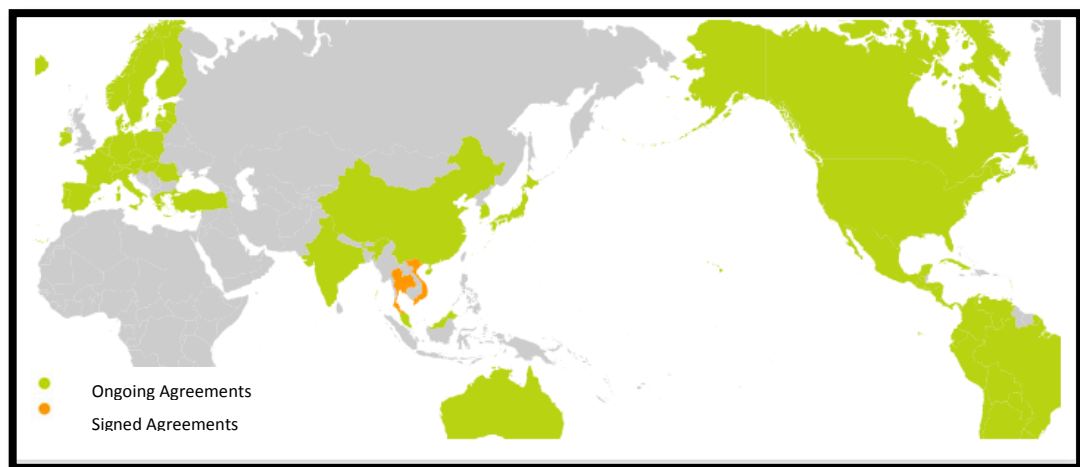
objective is to encourage commercial participation and get benefits as loans for the restructuring of economies.

- Regarding the Free Trade Agreements, in 2003 it formalized one with the United States, in 2005 with China and some countries in Central America. Actually, it has trade agreements with Peru, Colombia and other Latin American countries.

It is important to mention that Chile was the first Latin American country that initiated an open trade relation with Asian markets. In the same way, it has concluded 22 trade agreements with more than 60 countries, giving as result 93 percent of exports addressed to them.

Actually, the country has free trade access and low tariff rates with the major markets of the world. The following image shows the Chile commercial coverage worldwide, covering also the Americas and European region, Asia and Oceania.

**Image No. 3. Chile Trade Agreements map.**



**Source:** Ministerio de Relaciones Exteriores. Mapa de Acuerdos Comerciales.[Cited on: March 20, 2014] Available at: <http://www.direcon.gob.cl/mapa-de-acuerdos/>

### **3.3.2 Competitiveness and Innovation Agenda**

After Brazil, Chile is considered the second most innovative country in Latin America. So in addition of trade policies implementation, the Government created several innovation and competitiveness programs focused on domestic companies development. The objective is to diversify production, export growth and especially encourage technological development.

In 2005, the Government established the National Innovation Council which efforts Chile to become a producer of commodities and reduce the export of raw materials. Although, Chile is among one of the copper major exporting countries of the world, the Government considered that it had to generate competitive advantage through the use of new technologies, and especially through friendly environment production which adds value to export products and keep in good condition the natural resources.

In 2010, to complement innovation programs, the Government creates the Competitiveness and Innovation Agenda which covers a period of 10 years, culminating in 2020. The objectives of this Agenda are (Agenda de Innovación y Competitividad 2010-2020, 2010):

- To improve national production
- To get more income
- Business innovation
- Human Capital development.

In regards to business innovation, between the year 2006 and 2007 under the Government of Michelle Bachelet, it was implemented a business system that drove farmers through subsidies and cheap loans to develop value-added products to compete with higher quality in the international market. For this purpose, two important procedures were applied:

- **Companies best practices and technologies dissemination.**

To achieve this objective, the Government had the intervention of the World Bank, which could fund public goods research.

- **Focus on the development of an ecosystem for business innovation.**

For this experts technology intermediaries in the management of international markets were used. The coordination between incubators and seed capital funds are also considered appropriate keys to this ecosystem.

To achieve one of the objectives of the Innovation Agenda, the Government identified several sectors with great potential in order to generate greater involvement in issues related to research and technological development. The selected sectors were:

- The Biotechnology
- Treatment of Water Resources and Environment
- Information Technology and Communication
- Renewable energy and bio-fuels
- Energy efficiency.

Through the development of these sectors, it could diversify production and services, making also the population benefits of these. This contributed economically, because of the output produced, imports of various services decreased.

### **3.3.3 Tariff Measures**

As other Latin American economies, Chile has remained its exports concentrated mainly in raw materials. In order to use these resources internally, protect and promote the national production, the Government implemented an import substitution program which was based on imports tariff rate rise of several products. This percentage reached up to 30 percent and applied to products such as wheat, oil, milk and other products.

According to Customs of Chile, the imports taxes and charges are:

- **Value Added Tax**, the percentage reaches 19 percent of the CIF Cost, Insurance and Freight value.
- **The Ad-valorem**, which is 6 percent of the CIF value.
- **Other taxes**, considered specific duties have 3, 15 and up to 50 percent of the CIF value.

The goods that have to pay Ad-valorem and specific duties are:

- Wheat, sugar
- Gold, silver and ivory articles
- Jewelry, rugs and piles
- Air-guns
- Caviar
- Pyrotechnic
- Alcoholic beverages and cigarettes.

It should be noted that goods from countries that have trade agreements with Chile; its Ad-valorem tax will be reduced and in some instances removed.

The Chilean Government has also created a prohibited import products list, being included the vehicles, motorcycles and used tires, toxic waste and general industrial goods which are considered dangerous to human and animal welfare.

Similarly, to import any product at the time of customs declaration, a rate of 1 percent of the total amount is charged which corresponds to gauging procedure of the merchandise (Preguntas frecuentes importaciones).

With the implementation of tariff measures, it was able to boost production and increase exports of the mentioned products. The Government also created the Pro Chile program which is responsible for promoting products and services exports. The program has created more than 50 sales offices around the world in order to promote trade relations

and increase the export sector. At the same time, Pro Chile pursues innovation through training, international fairs participation and even financial loans that have benefited more than 500 exporters.

#### **3.3.4. Non-Tariff Measures**

The Chilean Government also implemented non-tariff measures with the objective to protect and develop national industry. For example; to limit imports, it has implemented processes as the certifications, origin norms, and technical standards, among others. Countries that want to export to Chile, and are part of a trade agreement have to present an origin certificate with which validate the origin of the products, their materials and uses.

Some products that need import licenses and certificates of origin are:

- Firearms and explosives
- Alcohol, alcoholic beverages
- Animals, animal and vegetable origin products and all kinds of food products
- Written or auditory materials for teaching
- Fertilizers and pesticides
- Pharmaceuticals, among others.

Additionally, the Government has implemented:

- **Technical Barriers**, Which are focused on required processes of standardization and certification, especially for electrical appliances imports. It is important to know that the safety and quality certificates that are emitted in eight months in the European region; are almost emitted in double time in Chile.
- **Administrative processes**. This measure applies specifically to perfumery and cosmetics imports. The Government has established that foreign companies that want to export must have a warehouse and be registered in the country. Also it

has to create a registration of the importer at the Public Health Institute, which requires a product validation by a Chilean Government authorized pharmaceutical chemist.

Finally, it is emitted a use authorization and a certificate for the product free sale. Especially, this process is applied to products such as soaps, lipsticks, creams, makeup, hair products, toothpaste, etc.

- **Border controls.** Whereby transportation and commercial freight are checked, with the objective of verify the health and quality required standards.
- **Phytosanitary controls.** Where transport and packaging of agricultural products such as fruits, vegetables, dairy, among other are inspected. The objective is to control the entry of pests and diseases that threaten the population health.

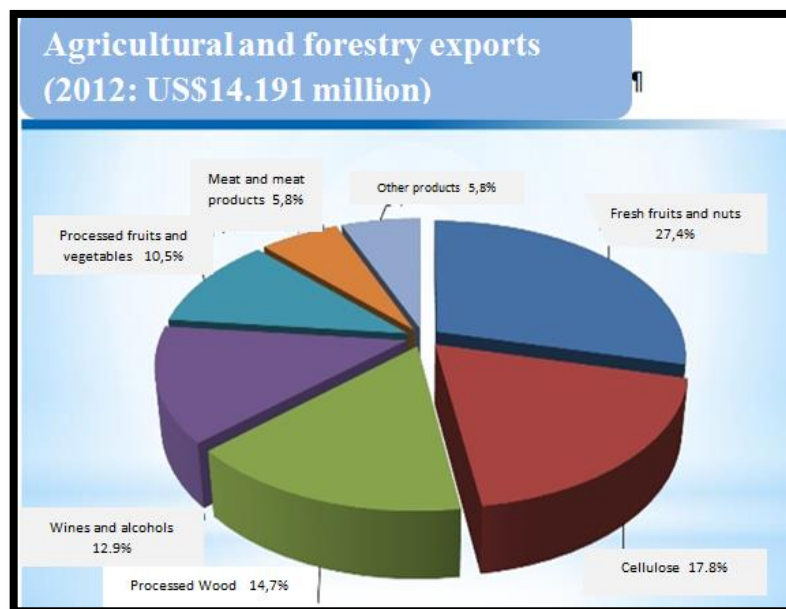
To ensure the effectiveness of these measures, Chile is part of WTO Sanitary and Phytosanitary Application Agreement.

### **3.3.5 Results**

With the implementation of trade policies, Chilean economy has grown, has reached the domestic industry development and the export growth. The following graphic shows the Chile exported products in the year 2012.



**Graphic No. 32. Chile exports percentage in the year 2012.**

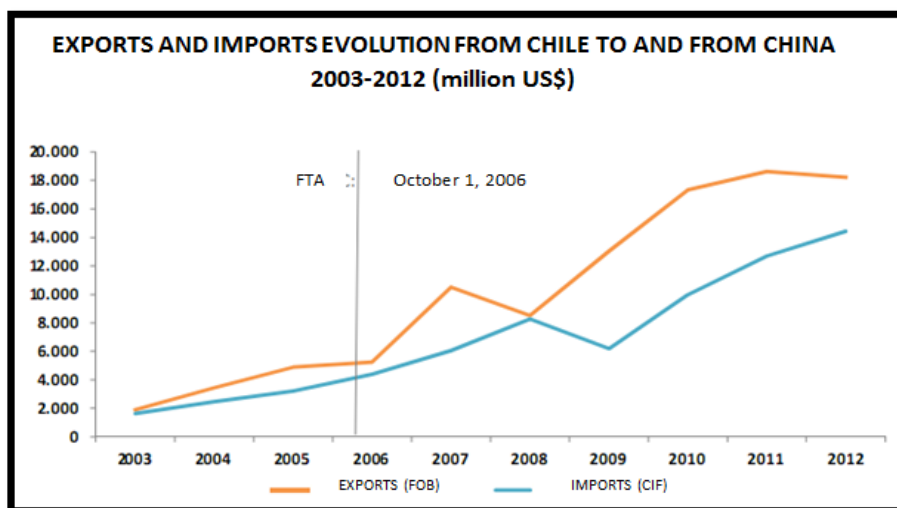


**Source:** Ángel Sartori, 2013. Política Agrícola en Chile y comercio internacional.: el rol de las barreras no arancelarias p22. [Cited on: March 24, 2014] Available at: <http://www.slideshare.net/FAONoticias/3-angel-sartori>

As it was seen, fruits, pulp and wood products are mostly exported. Definitely, its industries have developed thanks to the foreign capital and mainly by the Government intervention through the implementation of trade policies.

In matters of business development, the desired growth has reached. In particular, the result of the commercial interaction between Chile and China has shown a significant rise in exports. The following graph shows the imports and exports behavior represented in millions of dollars of the United States of America.

**Graphic No. 33. Evolution of Chilean exports to China.**



**Source:** Ministerio de Relaciones Exteriores.2013. Evaluación de las relaciones comerciales entre Chile y China a siete años de la entra en vigencia del tratado de libre comercio p. 7 [Cited on: January 24, 2014]. Available at:[http://www.direcon.gob.cl/wp-content/uploads/2013/09/Evaluaci%C3%B3n-TLC\\_China\\_7\\_a%C3%B1os-1.pdf](http://www.direcon.gob.cl/wp-content/uploads/2013/09/Evaluaci%C3%B3n-TLC_China_7_a%C3%B1os-1.pdf)

As it shows, since the free trade agreement with China, exports grew by 20,7 percent. Copper was the mostly exported product, follow by fruits like grapes, plums and cherries. In the case of grapes; through an agreement, it was given a preferential tariff of 3,9 percent, because the import duty will normally reached 13 percent. In 2012, the growth of fruit sector represented a 109,1 percent (Ibid pp.7-8).

Exports of alcoholic beverages and cigarettes also increased from 9 million in 2005 to 145 million in 2012. For these products, a tariff preference of 4,2 percent and 6 percent was agreed, compared with 14 and 20 percent respectively.

According with the evaluation of the trade relations between Chile and China, the formalization of the free trade agreement increased exports and achieved the production diversification. It is mentioned that of the 506 products exported by Chile, the 333 equivalents to 66 percent were new products that enjoyed a 70 percent preferential tariff.

The Partial Agreement signed with India in 2007, allowed that 198 percent of Chilean exports enter this country with a 20 percent tariff reduction (Evaluación de las relaciones comerciales entre Chile e India a seis años de entrada en vigencia del Acuerdo de Alcance Parcial, 2013 p.3).

Chile has also entered into the African market through the creation of the Africa Plan, which provides great opportunities especially for food exports. Between the year 2008 and 2012, exports have grown by 32 percent per year, and the imported products were: apples, red wine, white wine, butter, legumes, and different types of meat and dried fruit (Exportaciones de alimentos chilenos a África han crecido en 32% promedio los ultimos 5 años, 2013).

It is important to know that according to a study by the international consulting firm Boston Consulting Group BCG, Chile is considered one of the best countries in Latin America in subjects like per capita income, social development, infrastructure and education. Also other factors such as economic stability, lower unemployment, health and environmental care development are mentioned.

Finally, all the policies and programs implemented by the Government have placed Chile in the international ranking as a country with low risk for investors, low corruption and a successful international financial integration. The international rating works strategically, so foreign firms become more attracted knowing that their investments are safe, that can generate higher profits and in turn contributing to the economic, technological and industrial country development.

### **3.4 Similarities of successful economic models with policies proposed included in the “Plan for the Good Living 2009 – 2013”.**

Initially, an introduction about the creation of the Plan for the Good living 2009-2013 will be given, as in Article No. 280 of the current Ecuador constitution, which was approved by referendum in the year 2008, mentions the following:

“The National Development Plan is the instrument to which the policies, programs and public projects will be subject; programming and implementation of the state budget, and investment and the distribution of public resources; and coordinate the exclusive powers between the central government and autonomous governments. Its observance is mandatory for the public sector and indicative for other sectors”.

Based on this article, the National Plan for the Good living 2009-2013 was developed as a governmental instrument to complement trade policies. This document was elaborated by the National Secretary of Planning and Development SENPLADES in the period 2007 – 2009; and consists of 12 objectives and 12 strategies for the social development and the economic, commercial and industrial growth. With the implementation of the Plan for the Good living, the Government included other objectives as achieve the production diversification and a sustainable development through the strengthening of national industry and exports, eradication of poverty and especially of natural and economic resources proper distribution.

To achieve these objectives, strategies as public investment was applied, being the main source of funding. Further, import and export training programs were included for traders, entrepreneurship programs related to the production diversification to set away the primary export model based on the raw materials dependence. Regional and global cooperation and integration was encouraged as a source to promote Ecuadorian exports, and to achieve trade and infrastructure development.

Now, the main policies of the Plan for the Good living implemented by the Government will be mentioned, in order to compare them with trade policies pursued by the studied countries.

### **3.4.1 Improve the capabilities and potentiality of citizenship**

Human capital is the principal element for a country economic development. Through education, it pursues to strengthen the population individual and social capacities, so they will face the future challenges.

Ancestral, technological and research skills are added values in Human Capital. To achieve this objective, the Government focused on improving the level of education, and training the population in research topics in order to promote bio-knowledge. This one is based on the fusion of ancestral knowledge with the research and technology. For example, some pharmaceutical companies have set up laboratories in the country, to carry out studies and experiments taking advantage of ancestral knowledge, the wealth and the botanical diversity that Ecuador has.

This objective was focused on the preparation of the Ecuadorian population, in order to participate in international research. So, they can get more knowledge that can be applied in national projects development. With the creation of national projects is intended to benefit the local production and consumption, improve processed goods exports and finally decrease raw material exports and the finished products imports.

As principal tool, public investment intervenes through the creation of educational programs. While in the year 2005, the State General Budget the percentage of expenditures related to research, development and innovation was only 0,06 percent; however, by the year 2007 it increased to 0,23 percent (Objetivo 2: Mejorar las capacidades y Potencialidades de la ciudadanía. Educación.2009 p.168.).

The programs are based on an educational reform which has applied teachers, students and educational administrative systems evaluations.

With the country educational deficiency results, the Government mentioned a rising budget for education and technological development. It also imposed a superior

preparation for teachers, assigned a score to universities in order to improve the educational level, assigned funds directed to the scholarship promotion and created the millennium schools, which are technologically equipped in order to ensure the human capital formation.

Scholarships issue is an interesting strategy for national development, as through it promotion is looking for Ecuadorian students to acquire international knowledge that can be applied in the country.

This objective is important to national development, because through academic preparation is intended that the Ecuadorian intellectual capital can be recognized worldwide, and especially to be able to encourage the creation of new commercial projects that benefit the national economy.

#### **3.4.2 Guarantee the nature rights, and promote a healthy and sustainable environment**

Ecuador natural resources have always been considered a source of income, without having any control and environmental protection by governments. This began to generate deforestation, species extinction by hunting and fishing without limits and over-exploitation of natural resources such as oil.

For example, the oil industry is one of the major environmental arguments, because Ecuador Amazon territory has been occupied by oil companies that over environmental degradation have caused the loss of natural areas, and invaded the lands of the native communities without offering them any financial support.

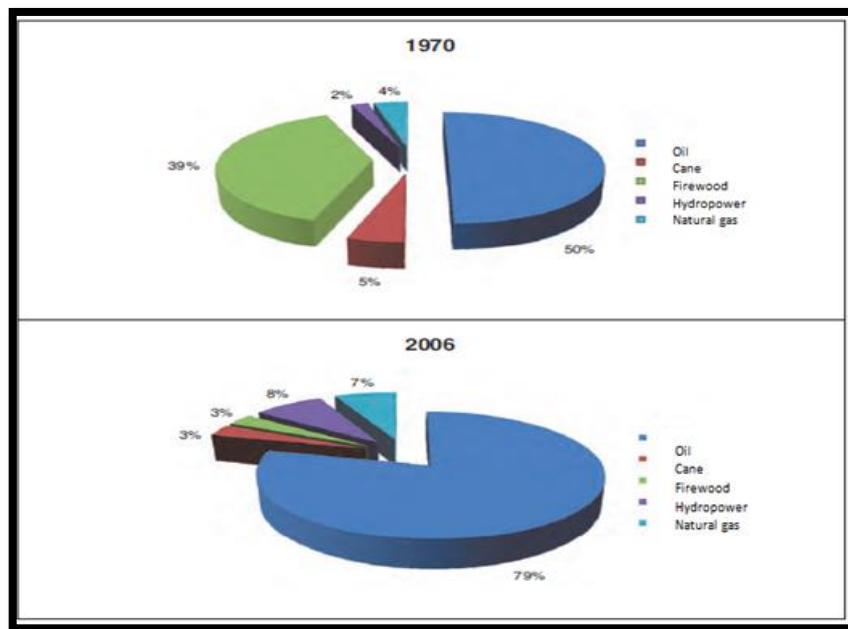
This objective has encouraged all individuals and communities to practice social responsibility, in order to protect the environment as non-renewable source of natural resources and especially as a source of life for Ecuadorian people. Also, this objective is focused on ensuring that natural resources are properly used, so the Government

proposed the creation of environmental regulation policies, specifically directed to industrial processes.

To achieve the proper functioning of these environmental policies, it was set changes in the production methods to prevent, control and eliminate existing pollution due to industrial growth.

The Government first trained entrepreneurs and small producers in areas related to environmental care when producing. Similarly, with this objective the diversification of the means of production is sought, promoting the use of alternative and natural energy like solar, hydro and wind. The graph below shows the different energy sources used in the country in the years 1970 and 2006.

**Graphic No . 34. Ecuador primary energy supply, in the years 1970 and 2006.**



**Source:** SEMPLADES. Objetivo 4: Garantizar los derechos de la naturaleza y promover un ambiente sano y sustentable.2009 p. 225. [Cited on: March 24, 2014] Available at: [http://www.planificacion.gob.ec/wp-content/uploads/downloads/2012/07/Plan\\_Nacional\\_para\\_el\\_Buen\\_Vivir.pdf](http://www.planificacion.gob.ec/wp-content/uploads/downloads/2012/07/Plan_Nacional_para_el_Buen_Vivir.pdf)

As it shows, in 2006 oil was used as the major source of energy. So the Government encouraged the development of other energy sources, using for example ethanol obtained from sugar cane to be mixed with gasoline. Similarly, the palm would be used to develop the biodiesel.

Through the promotion of environmental care, it is intended that Ecuadorian products have international recognition about this topic. The ISO 14000, which is related to the environment protecting, certifies companies or organizations which are controlling the environmental impact and are constantly improving their production processes in pro of the environment. It is important to know that besides international recognition, obtaining the ISO generates other benefits such as:

- Cost reduction in the management of waste



- To save energy consumption
- To generate low distribution costs
- To improve internationally corporate image and offers to consumers a higher quality product.

The Government has proposed to train farmers to obtain international certification, so the same will work strategically to promote Ecuadorian products worldwide. Actually, there is a tendency to consume organic products elaborated with environmental methods, so with the implementation of new production processes, it can get competitive advantage.

Through the Environment Department, it was developed the Green Point initiative which is a recognition that serves as motivation to industries. For example, in the city of Cuenca it was developed the initiative of environmental care, as companies like Equiplast have implemented to their production materials considered not toxic to the environment.

### **3.4.3 Guaranty the sovereignty and peace, and promote the world strategic insertion and Latin American integration**

As part of the Ecuadorian sovereignty, the Government includes the necessary Latin America and Global integration. The main objective is to achieve social and productive transformation through the creation of economic and trade cooperation programs, to increase international participation of the State and not repress its sovereignty as it was with the military base in Manta.

Regional integration and cooperation search the industrial, technological and social development. Most countries in Latin America including Ecuador, under the same objective of economic, commercial and industrial development have pursued regional integration through the creation of organizations such as:

- The Organization of Latin American and Caribbean States OELAC
- The Southern Common Market MERCOSUR
- The Bolivarian Alliance for the American ALBA
- The Andean Community of Nations CAN.

The following image shows the participating countries in the mentioned organizations.

**Image No. 4. Regional Integration, CAN, MERCOSUR and ALBA.**



**Source:** SEMPLADES. 2009. Objetivo 5: Garantizar la Soberanía y la paz, e impulsar la inserción estratégica en el mundo y la integración latinoamericana p. 258. [Cited on: March 24, 2014] Available at: [http://www.planificacion.gob.ec/wp-content/uploads/downloads/2012/07/Plan\\_Nacional\\_para\\_el\\_Buen\\_Vivir.pdf](http://www.planificacion.gob.ec/wp-content/uploads/downloads/2012/07/Plan_Nacional_para_el_Buen_Vivir.pdf)

Although dependence on imports still remains the country tied to leading economies, through regional cooperation is pretended to potentiate the industrial capacities of the associated states. Specifically, Ecuador has as a principal objective to enhance its own power supply, so it will be enough energy generated to supply the domestic production.

Actually, hydropower is the most used in the country; however to avoid blackouts in cases of drought, it is seeking to develop wind energy. In a long term, it is expected

Ecuador to export energy to countries with higher production capacity, so energy like oil exports will represent a significant income to the country.

Through regional cooperation is pretended to improve price competitiveness, products and markets diversification. The latest is more important because almost 93,3 percent of exports are directed to 24 countries being the majority of Latin American. Of this percentage, 50 percent includes exports to the United States and Peru (Objetivo 5: Garantizar la Soberanía y la paz, e impulsar la inserción estratégica en el mundo y la integración latinoamericana, 2009 p. 251.).

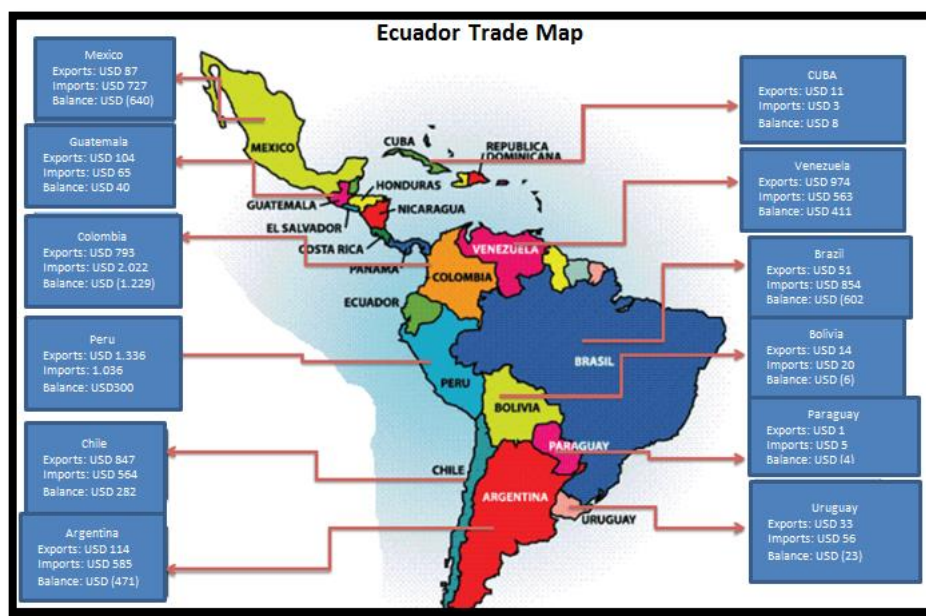
As part of the international integration, and with the objective of diversifying markets, Ecuador has signed trade and cooperation agreements, being the most important:

- With China, Ecuador negotiated the sale of seafood especially of shrimp; and the cooperation that benefits the aquaculture sector was coordinated. This agreement was achieved thanks to the need of China to supply its population with quality products. Similarly, through PROECUADOR with its offices in China, has succeeded in promoting the country as an access to the South American market.
- With Canada, trade relations were formalized, especially focusing on the exports of products such as oil, fresh flowers, palm, beans, flour, coffee, fruit pulp and fruit such as maracuya, papaya and pineapple. There has also been a cooperation agreement for the development of infrastructure, with the investment of the Canadian company Aecon in the construction of the new Quito airport.
- Since the entry of the Russian market to the World Trade Organization, Ecuador has discuss issues such as production development and the cooperation in the exploitation of resources such as oil and natural gas. At the same time, the development of industries such as mining, petrochemical and steel is proposed.
- The European Union confirmed that in 2014 Ecuador will benefit from the GSP plus, allowing the entry of the country export products with tariff preferences. Also in this year, meetings were established to achieve other trade agreements with the EU.

- With Guatemala, a trade agreement with mutual tariff benefits was signed. It includes products within more than 700 tariff subheadings, of which 23 were granted in exclusive favor of Ecuador.

The following image shows the Ecuador trade relations in the year 2011, with the countries of the America region.

**Image No. 5. Ecuador Foreign Trade map in the year 2011.**



**Source:** Cámara de Industrias de Guayaquil.2011. Acuerdos comerciales del Ecuador p. 26.[Cited on: March 26, 2014] Available at:

[http://www.industrias.ec/archivos/documentos/acuerdos\\_comerciales.pdf](http://www.industrias.ec/archivos/documentos/acuerdos_comerciales.pdf)

With the markets diversification, over economic performance, the national industry benefits with the production diversification. Among the typical exports products are oil, flowers, seafood and raw materials.

For example, in 2007 the company Telconet and its partner Fiberhome Telecommunication began in the country the installation of optical fiber with the

objective of becoming the largest cable company in Latin America. With the creation of this company, local companies and internet providers will benefit.

At the same time, these will facilities the country to improve its telecommunications system. It is expected that this year, Ecuador will transform from an importer country to a fiber optic exporter country. It is estimated that the company can supply to Colombia, Venezuela, Peru, Bolivia, Chile and Argentina.

The exportable Ecuador non-traditional fruits offer has also diversified, as actually fruits like: mango, Hawaiian papaya, maracuya, granadilla, gooseberry, lemon, guava, avocados, among other are exported.

Certainly, the search of integration brings major economic, commercial and social benefits. Actually, Ecuador pretends to promote the South-South cooperation through the promotion of MIPYMES. Also it seeks to promote healthy food production for domestic consumption, so imports will be reduced.

#### **3.4.4 Establish a social, economic, helpful and sustainable system**

To achieve this objective, a change in the entire economic system of the country was raised, in order to transform primary economy into a diversified production based on technological and industrial development.

Economic diversification permits the revaluation of Government funding, which generally supported industries with greater resources. Small and medium organizations financing activities work as a way to encourage domestic production and generate changes in the traditional economy.

As part of this economic restructuring, the distribution of the economic resources, infrastructure and access to public services is sought. To encourage domestic production,

it is important to support artisanal production through the creation of workshops and trainings based on local knowledge and practices.

Similarly, an advantage in promoting exports is the international incorporation of actors such as the micro, small and medium sized enterprises. The promotion of these requires the creation of institutions which provide financial capital and the necessary means of production. At the same time, these organizations have to deal with market regulations, eliminating monopolies and oligopolies that affect the development of new businesses.

The creation of ProEcuador as an institute for exports and investments promotion has as objective to promote the country in export issues, and promote the traditional and non-traditional offer. This institute was created to complement the objectives related to foreign trade and the development of national industry. As part of ProEcuador programs, entrepreneurs engaged in selling Chordeleg jewelry were invited to the international fair in Milan, where it was promoting the Ecuadorian product.

Also through foreign investment, it is pretended to finance disadvantaged sectors and to stimulate their production. The channeling of remittances is also involved in this economic restructuring, which can be directed to productive investment.

Finally, it seeks to cooperate in the improving customs services, so trade will be greater easy. Also it tries to promote fair trade for the protection of domestic industry and especially it seeks to apply tariffs and selected subsidies based on national interests.

### **3.4.5 Policies and Commercial Projects**

Besides of the objectives established in the plan for the Good living, the Government has implemented programs and trade policies focused on the protection and development of national industry. For example, dependence on imports has prompted the MIPRO to develop entrepreneurship programs.

The Improvement of balanced food Program has allowed the country economic growth, and has projected savings of \$ 200 thousand dollars a year with the import substitution especially of products such as corn and soybeans (MIPRO busca reducir importaciones, 2011). Agroindustry is the country most important sector, because provides food for the population and generates direct labor.

The Industry and Productivity Department has given workshops for producers, exporters and importers, on issues related to import surges and unfair competition. The purpose is to indicate to exporters how recognize cases of dumping or other trade procedures that affect domestic production. These workshops have indicated procedures to detect and properly report all the cases of unfair competition.

Another project proposed by the Government in cooperation with the Ecuadorian Training Service SECAP and the MIPRO, is the free artisanal training of over 3.100 artisans with a capital of \$ 500 thousand dollars (El Gobierno Invertirá \$500.000 dólares para la capacitación de 3.100 artesanos de todo el país, 2011.). For example, Galapagos population was trained in issues related to fishing and tourism as the main source of income for the population.

The Government has also implemented some tariff measures in order to encourage domestic industry. For example, in 2007 a safeguard was imposed to turkey imports coming from the CAN. With this measure it was reduced the turkey imports and especially encouraged the increase of domestic production.

Once completed the approved application measure time, the Government imposed as a requirement the Origin and Phytosanitary Certificates for the entering of this product.

Other safeguard was also imposed to footwear, especially from China. This measure encouraged domestic production which in 2011 produced 31 million pairs of shoes (Salvaguardias arancelarias mejoran el sector del calzado, 2012). In the case of toquilla, it was offered workshops to promote knowledge and techniques for the production of the



famous hats. The Government also applied the tariff measures that were mentioned earlier in Chapter 2.

### 3.4.6 Matrix Productive Transformation

The Government proposed the matrix productive transformation as one of the challenges to achieve the good living. The objective is to leave behind the primary export model and replace it with a democratic model based on knowledge and skills of the population, but mainly based on industrial development and finished goods exports.

The production matrix model is the organization of the different actors, processes, goods and services that together carry out productive activities. The combination of these factors creates a pattern of specialization that distinguishes Ecuadorian production.

As it was mentioned, Ecuador has a primary export specialization pattern, so through this transformation it will achieve a diversified production based on knowledge and biodiversity, so it will generate added value to Ecuadorian products (Transformación de la matriz productiva. Revolución productiva a través del conocimiento y el talento humano, 2012, p.11).

Similarly, with the productive matrix transformation it will be achieved (Ibid):

- To build new patterns of distribution and redistribution of wealth
- To reduce the vulnerability of the Ecuadorian economy
- To eliminate territorial inequalities
- To incorporate development excluded actors.

Within this process, some specific goals have been set:

- **Diversification of production:** which is based in the development of new industries such as petrochemicals, metallurgy, steel, bio fuels, among others in

order to expand the supply of Ecuadorian products and reduce dependence on imports of such goods and services.

- **Add value to production:** through the use of new technologies, knowledge, and processes related to environmental products and services, and renewable energy.
- **Substituting imports:** through the selection of goods that can be produced in the country in a short term.
- **Export promotion:** especially of new products and actors which in complement with the exports growth, expand the commercial destinations.

It has also been selected the following industries with highest priority:

**Chart No. 24. Ecuador prioritized industries.**

Sector	Industry
GOODS	1) Fresh and processed food
	2) Biotechnology (biochemistry and biomedicine)
	3) Apparel and footwear
	4) Renewable energy
	5) Pharmaceutical industry
	6) Metalworking
	7) Petrochemical
	8) Wood forest products
SERVICES	9) Environmental services
	10) Technology (software, hardware, computer services)
	11) Vehicles, automotive, bodywork and parts
	12) Construction
	13) transport and logistics
	14) Tourism

**Source:** Secretaria Nacional de Planificación y Desarrollo. 2012.

Transformación de la matriz productiva. Revolución productiva a través del conocimiento y el talento humano. p. 19. [Cited on: March 25, 2014]

Available at: [http://www.planificacion.gob.ec/wp-content/uploads/downloads/2013/01/matriz\\_productiva\\_WEBtodo.pdf](http://www.planificacion.gob.ec/wp-content/uploads/downloads/2013/01/matriz_productiva_WEBtodo.pdf)

To achieve these objectives, it is involved the public policy related to infrastructure and production financing issues. Within this policy, it is also investing in education,

scientific development, telecommunications, roads and renewable energy in order to generate Ecuadorian population good living in a long-term.

#### **3.4.7 Comparison of the policies implemented by the Ecuador Government and the policies applied by the analyzed countries**

After mentioning some objectives included in the Plan for the Good Living, a comparison with the policies used by the previous analyzed countries will be done. Certainly, governments have similar objectives as protect and promote domestic industry to raise the exports level, to achieve technological development and a sustainable economy, and especially the social welfare; however, the applied policies and strategies are different in some countries.

In the case of China, it was promoted foreign investment through the creation of Economic Zones that facilitated and promoted trade access. The elimination of trade obstacles and barriers attracted foreign investment to the country, also private sector development obstacles were removed, setting the restructuring of the enterprise system.

When the country had the foreign investors participation, it was created a business program called ‘salir al extranjero’, which were focused on economic and technological cooperation of the Chinese companies with the partner countries companies. The objective was to find new markets and obtain raw materials to supply its domestic production. Similarly, through the cooperation programs, third countries were used to promote national product.

With the WTO adhesion, the creation of several commercial agreements and the signing of several FTAs with most countries contributed to its economic development. It was promoted its products globally, and especially they compete with the low prices offered. Through these agreements, China became the second largest trading partner in Latin America.

China also applied trade measures especially to the European Union, as it was the block representing competition. Some of the measures were rising tariffs, import licensing and phytosanitary certificates, especially to agricultural and meat products in order to encourage domestic production to supply the needs of its big population.

In the case of Portugal, the Government also adopted foreign investment as a means of industrial and technological development. Through the European crisis, it was promoted the low wages of its population; also its geographic location was promoted in order to attract the attention of investors who sought to reach out all the European market. With foreign investment, the country infrastructure was improved, especially the city of Lisbon, making it the commercial city of the country.

Similarly, the entry to the European Union contributed to economic growth, generated a free movement of goods, facilitated the cooperation between member states and served as promoting domestic products.

Portugal adopted trade measures such as the imposition of a common external tariff on products from countries outside the European Union. It raised taxes on imports of agro-industrial products and foodstuffs in order to promote the national development of these industries. Additionally, it imposed non-tariff measures such as the application of origin certificates and licensing.

Also, it implemented the NIMF-15 standard, which was based on imports packaging control in order to prevent the entry of pests that may affect national production.

Additionally, the Portuguese government created a program of economic adjustment which looks for the economic transformation through the public expenditure restructuring.

Finally, in the case of the Chilean Government a financing fund was created which promoted the research and technological development. Also a percentage of the state

capital was designed to finance small and medium producers and the creation of cooperation programs such as Clusters.

The Chilean economy was developed through trade liberalization, regional integration and the formalization of trade agreements like FTAs. As it was mentioned, Chile was the first Latin American country to begin negotiations with China.

Similarly, the creation of innovation and competitiveness programs allowed diversify production and increase the exports level.

The creation of the Innovation Agenda which focused on business innovation and the formation of human capital were also added. Through these programs, new sectors such as water resources, information technology and renewable energy were potentiated.

About trade measures, it was applied tariff rises on products considered of basic necessities, and increased the percentage of taxes such as VAT and ICE to luxury products. The application of import licenses and the various products imports prohibition equally contributed to the development of national industry.

In the case of Ecuador, as it was mentioned it sought to develop a sustainable and participatory economy. In the proposed Plan for the Good Living, and the analyzed governments strategies, it aims to develop the national industry and the markets and export products diversification.

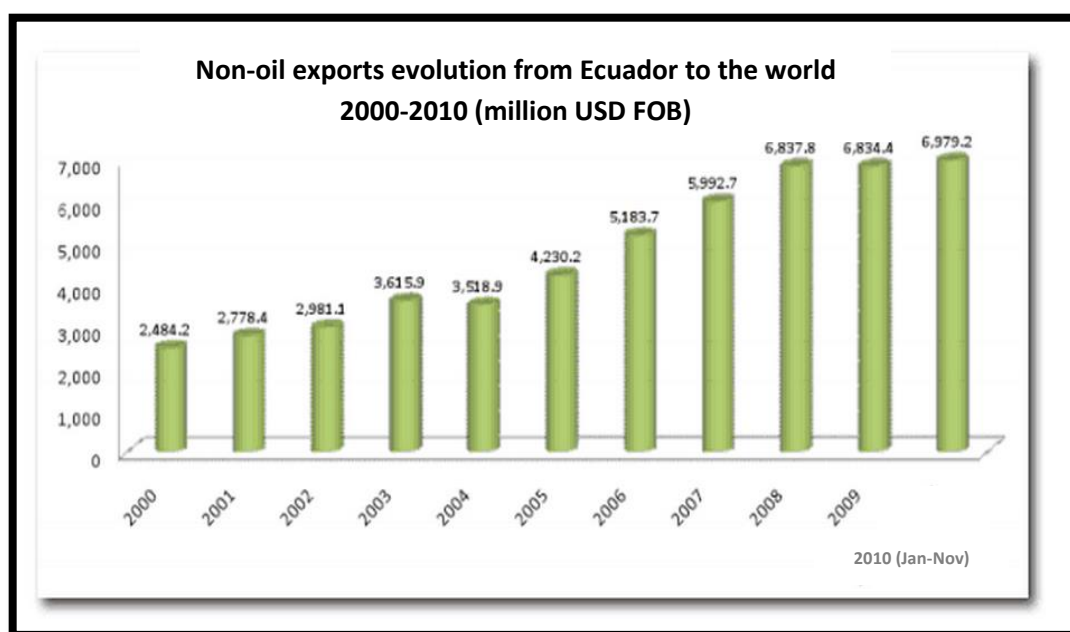
With the application of the first objective, like Chile, Ecuador sought the development of human capital through an educational reform and the creation of programs and the population training. Through this, the population was encouraged to work for environmental protection and the conservation of natural resources.

Environmental policies and regulations were created, and the use and development of alternative energy were promoted. In addition, the Government encouraged companies

to develop pro- environment processes, in order to obtain international certifications as a strategy that gives added value to the national production.

Through the third objective, it was promoted openness and international integration of the country with the aim of diversifying markets and production. As trade liberalization applied by other countries, Ecuador formalized negotiations with several countries that allow the exports promotion and growth. The following graph shows its increase, represented in million dollars FOB value from the year 2000 to 2010.

**Graphic No. 35. Ecuador non-oil exports evolution.**



**Source:** ProEcuador. 2011. Boletín de Comercio Exterior p. 4. [Cited on: March 27, 2014] Available at: <http://www.proecuador.gob.ec/pubs/boletin-de-comercio-exterior-enero-2011/>

The country also implemented trade measures to promote domestic industry, and further proposed to promote fair trade and the consolidation of regional financing as an alternative to traditional lending agencies

## **Conclusions**

After mentioning and analyzing trade policies implemented by Ecuador Government as part of the National Plan for the Good Living 2009-2013, it can consider that the implementation of these policies, specifically safeguards and tariff and non-tariff presented advantages and disadvantages. The different measures were applied as part of a program to protect the domestic industry; however, it does not realize some problems present in the national reality.

The technological deficiency is one of the country problems, as some sectors like pharmaceuticals and textiles do not have the technology needed to produce their own raw material, so they continue importing inputs to produce. It is important to know that the production of some domestic industries does not supplying all the internal demand, so it is necessary to import.

Although the National Plan for the Good Living 2009-2013 considered achieve technological development, acquiring new equipment represents more investment for owners of companies, which generally do not have necessary financing. A second problem presented is the lack of Ecuadorian population training to handle the required technological processes.

Certainly, the Government through the development of various programs has been commissioned to offer different courses and training to the population about technological issues and in other areas of higher occupation. However, technological and industrial development in the specified period does not reached its higher potential. In response, the Government proposed as a complementary strategy to encourage producers to change the production model.

As it was mentioned, this change includes the adoption of new technologies and processes which together with the combination of different business strategies, achieve

to develop the country economy, export in large quantities and especially provide a better quality of life for the population.

Another point that did not allow all the industrial development is the fulfillment of trade agreements. Ecuador agreed certain tariff preferences for imports from partner countries. Conveniently, the World Trade Organization in an unfavorable economic situation allows certain exceptions.

In this case, Ecuador imposed a minimum tariff on imports of certain products that harmed the domestic industry, so they continued with the fulfillment of the agreement of other products that did not represent greater harm to national economy.

Despite these disadvantages, the application of trade measures also provided some benefits to the national economy. As it was discussed in the results of Chapter 2, the country exports grew, diversifying products and markets.

The programs established by the Government as ProEcuador, equally contributed to this diversification. Through advocacy and interaction with investors, it was possible that small, medium and large size companies materialize negotiations offering domestic products. Although the production of some companies is not exported, the footwear industry for example, has achieved a notorious nationwide growth. As it was mentioned by restricting imports of this product, especially from China, it is able to promote the domestic product.

Another established program is the INEN quality control that has encouraged domestic companies to produce quality goods in order to get different national and international certifications, and to be able to compete with other products offered in the international market. A production control method in favor of the environment is added, so that generates an added value in domestic products which will be preferred over compliance of new international trends.



Although the imports value has not declined as expected, growth in exports is a positive sign that shows the effectiveness of the trade measures in the long-term application.

## **Recommendations**

The application of trade measures is certainly a process that brings long- term results. As it was discussed in Chapter No. 3, countries in different regions that have implemented these measures have achieved economic development that has been admired internationally.

In the case of Ecuador, to complement the application of trade measures, it is important the Government participation through the provision of infrastructure and other economic means to facilitate country industrial and technological development. While there are institutions responsible for providing financing to small and medium size producers, their work should continue with the workers training on issues related to technological innovation.

According to this topic, it can encourage population to be trained through the formalization of international technology cooperation programs. It is important to mention that actually the Government is providing scholarships to educate the population academically, so the knowledge gained will be nationally applied.

Also it is important the proper selection of the industries that will participate in the programs of import substitution, because as mentioned there was some raw material shortages in certain sectors, which complicated production processes.

The application of trade measures is certainly a tool that helps achieving country economic development. However, governments have to implement them strategically, so it will not prejudice in any way the producers and the national economy.

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