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***ANALYSIS OF THE EFFECTS CAUSED BY THE TARIFF
BARRIERS APPLIED AS A MEASURE TO PROTECT THE
FOOTWEAR PRODUCTION SECTOR IN THE CANTON OF
GUALACEO-AZUAY PROVINCE, PERIOD 2007 - 2013***

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International Studies With a Major in Foreign Trade

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DEDICATION

I dedicate this work to my sweet son Stefan who filled my life with light, love and inspiration. My husband for being by my side supporting me and encouraging me to keep going. My parents and sister who have taught me to be who I am and follow my dreams. My grandmother who has been there always in good and bad times with the right words. My grandfather, who is always in my heart, who I will never forget and who I know take care of us from heaven.

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SUMMARY

La presente investigación permitió obtener, analizar y evaluar los efectos generados en el sector calzado del cantón de Gualaceo tras la aplicación de las salvaguardias aplicadas en el año 2009 debido a un déficit de la balanza comercial y a las consecuencias de una crisis mundial que terminó afectando al Ecuador. Dicha medida proteccionista fue implementada por decisión del gobierno ecuatoriano como medida para precautelar la producción de calzado imponiendo barreras arancelarias al producto importado generando así consecuencias positivas y negativas tanto a los importadores, artesanos, comerciantes y productores.

El primer capítulo abarca el estudio teórico necesario para el posterior análisis de los efectos generados por la salvaguardia. El segundo capítulo contiene información sobre la economía Ecuatoriana incluyendo las medidas aplicadas específicamente al calzado y su sector productivo. Por último, el tercer capítulo analiza y evalúa el efecto que produjeron dichas medidas.

Entre los principales efectos se puede mencionar: una mayor producción de calzado, un incremento en ventas durante el tiempo de duración de la salvaguardia, la disminución de calzado importado, una mayor dinámica comercial, entre otros.

ABSTRACT

This research allowed obtaining, analyzing and evaluating the effects in the footwear industry of the canton Gualaceo caused by the safeguards applied in the year 2009 due to a shortage in the commercial balance and the consequences of a global crisis that ended up affecting Ecuador. These protectionist measures were applied by the decision of the government as a measure to forewarn the production of footwear imposing tariff barriers to imported products generating positive and negative consequences to the importers, artisans, traders and producers.

The first chapter covers the theoretic study necessary for the posterior analysis of the effects generated by the safeguards. The second chapter contains information about the Ecuadorian economy including the measures applied specifically to footwear and its producing sector. Finally, the third chapter analyses and evaluates the effects that were produced by the application of the tariffs. Among the principal effects are: a greater production of footwear, an increase in sales during the safeguards, a decrease in import of footwear, a greater commercial dynamic among others.

INTRODUCTION

International trading plays an important role for the growth of a country, it creates bonds with the global economy and generates a better competitiveness. This way international trading interacts through resources, capital and the work force. But what happens when the goods are produced in both countries and the imported product is better than the national one? That's when the foreign competition becomes a danger for the national production and the government opts to use measures of commercial politics applying these measures that in a diplomatic way, allow to encourage productive activities of a country, protecting the national market and create job opportunities.

That way, in 2009, COMEXI used Resolution 466 to announce the existence of a deficit in the payments balance because of a report of Ecuador's Central Bank. A motive for the national government to decide to apply safeguards for the payments balance to different productive sectors, including the footwear sector, applying a specific tariff, along with an Ad-valorem.

This investigative work concentrates on the analysis of the tariff measures adopted in 2009 with the objective to determine the effects caused to the importers, producers and sellers of footwear in the Gualaceo Canton.

That's why, the first chapter focuses on the theoretic part about international trading and the protection of national markets, necessary aspects that allow us to fully understand what will be analyzed later on.

The second chapter indicates the reality of the productive sector of footwear in Gualaceo, being analyzed from different perspectives to know in a better way how these activities are being developed in the market and like that understand the causes of the effects stated in the next chapter. The measures applied to Ecuador will also be analyzed, along with the external and real factor of the Ecuadorian economy, seeing these decisions taken in different periods, have effect on the future, as with the independence of oil, remittances and raw material, a few of the reasons that took to a financial problem in Ecuador.

The third chapter contains the information of the field work, a qualitative investigation to determine the effects caused by the safeguards applied to the producers, sellers and importers during the analyzed period. Interviews were taken, producing shops were approached in Gualaceo, information was asked from the municipality of Gualaceo, which was approved by the mayor and different people were visited that were part of this art that is footwear in Gualaceo during history.

Chapter I

International business and protection of National Market

1.1 Main Economical Thoughts of Foreign Trade

International business consists of the process of interchanging goods or services between 2 or more countries satisfying the necessities of each market. In that way, trading is fundamental for a country to develop in an optimal way using the supply and demand mechanism.

Bustillo (1909) argues that “The act of trading is all operation that applying to goods, or to natural/industrial productions, has the goal to reach any commercial profit, which at the same time, through such acts, is used to reach new benefits.” Nevertheless, the participating countries in this economic activity of commercial interchanging has to consider various aspects to reach mutual benefits, like being subjected to regulations. Behind every form of government there will always exist different ways to perceive the market. This important aspect of history in each nation, has through time, been a significant ideological worldwide battle regarding the management of trading, making clear in that way a couple of thinking patterns depending on the times, refuting economic theories, creating evidence of the mistakes made by each government.

1.1.1 Mercantilist Doctrine

The theory of commercialism rose by the end of the 18th century, which was a current of economical thought that explains how the gold and silver were considered to be fundamental to reach a wealthier state of the nations and to gain a stable market. “Precious metals and the trading of spices was really important. This current led to an experienced of a major boom thanks to the discovery of deposits of precious metals in the new world” (Berumen, 2002)

This theory defended the intervention of governments and believed firmly that a country has to maintain a greater number of exports, developing payable products such as gold and silver and reducing imports. That way the wealth of an exporting nation accumulates. The government was in charge of organizing and planning the acquisition of precious materials. The interests of merchant capital were present at all times.

At the same time, the different cities specialized, formed alliances, the trading business grew which made the commercialism slowly fade away. “The policies and consequences of commercialism were different in each country. The Spanish, French and English commercialism were very representative of this type of business.” (Bremen, 2002, p.4).

1.1.2 Absolute Advantage Act

Adam Smith is considered to be the father of economy, after the publication of his book “The Wealth of Nations” in which he started the analysis of the creating of wealth. Smith believed in the benefits of a liberal trading, maintaining that the specialization of each country would lead to mutual benefits after a commercial exchange, coming from the specialization and divergence of the work. He thought that preparing men to specialize in a specific activity, concerning the production of goods, would be reflected in an increment of the capital, the goods and the level of productivity. Zamora (1943), indicates that Smith's theory, which was improved by David Ricardo, was able to explain that value of the products was in function of the quantity of work that was needed to produce it, while the main agents of the manufacturing were direct manufacturers, owners of the goods they made with their own effort. In other words, the economic focus was the theory value-work, making clear that the division of work was limited by the size of the market.

“That's why whoever increases the market, will increase the available wealth and everything that limits this, will decrease.” (Bremen, 2002, p. 10). Adam Smith supported “that thanks to our ability to trade with other people we can specialize in the things we know best, and enables us to live better.” (Schettino, 2002, p.267).

Countries that could produce more investing as little as possible in producing factories would have the advantage. Smith criticized merchants drawing inspiration from the fact that “protectionism lead to a bad assignment of capital, because it’s assigned inefficiently.” (Bustillo, 1909, p.9) This eliminated the concept that countries only where able to see themselves benefited at the cost of others and explains that nations where able to take advantage of specializing in its products.

1.1.3 Compared Advantage

Behind the absolute theory planted previously by Adam Smith, David Ricardo develops the principle that indicates the fact that any country can be encouraged by trade. Nevertheless, Smith as well as Ricardo criticized commercialism, and both focused more analyzing from an offer standpoint, where the foundations of trade depended on the differences of costs. (Berumen, 2002). During that time, work was considered to be the source of value, which implied that a “better production” could only be achieved by putting in less man-hours, meaning that taking less time to produce something, would make it more valuable.

Ricardo clearly indicates that considering the compared advantage “... nations possess a certain degree of ability to produce a specific product. (A higher degree then other countries), and with a certain amount of money they could produce such product to trade with other countries that need the product and furthermore, the country (Which also possesses a certain degree of ability to produce other goods) will do likewise, taking in consideration that the other countries need it. (Berumen, 2002, p.224)

We also need to take into consideration that Ricardo proposed 2 versions concerning the Compared Advantage in his book “Principios de Economía Política y Tributación”, which was written in the year 1817. The first version is the absolute compared advantage where he mentions that when a country produces a better product than any other country does, it should export said product. On the other hand, the second version is the relative compared advantage, that indicates that a country should concentrate on producing products as good as it can, although there

may be other countries that are producing the same, but of higher quality. (Schettino, 2002)

Similarly, the Ricardian Theory thought that the compared advantage depended on the technological ability it possesses, in other words, the differences in the labor productivity.

“... under the assumptions of the Heckscher-Ohlin model, international trade will produce an increase in goods in the countries that participate in trade, in accordance of situations where countries don't partake in trade. “(Bajo, 1991, p. 39) A country will export goods it can easily obtain, where it will import goods that are hard to come by. (Bajo, 1991, p. 33)

1.1.4 Heckscher-Ohlin (H-O) Model

Eli Heckscher and Bertil Ohlin, both Swedish economists, were the ones who formulated the well-known Heckscher-Ohlin Model, that has greatly influenced the way we see the causes of international business flow.

Considering that according to Bajo (1991) international business is the analysis of the aspects that are related to the exchange of goods and services between different countries, its main focus is firstly analyzing the real aspects of the international economic relations like in the tendencies in the long run. That's why it's important to mention regarding this theory that we have to assume that preferences and technologies between the acting countries in international business are similar.

However, we do not take into account that every country has a history in economics, politics, culture and technology which makes each nation different from the next one in a globalized world. As Schettino's words (2002):

“The Heckscher-Ohlin model considers international business from a technological parity between all the countries. However, the international dynamic shows us that only industrialized countries have similar technology and that upcoming countries deal with a significant technological delay”. (p.116).

On the other hand, this H-O model emphasizes that countries prefer to export products that have a high production number, and have enough raw materials, while producing something with scarce materials would present a clear disadvantage. That's why Schettino (2002), mentions that when incrementing the endowment of a certain factor, the goods that are used intensively will not only see an increment in production but also in export. (p.273)

1.1.5 Keynesian Approach

John Maynard Keynes, influential English economist in the 20th century, survived several important periods in history, which helped him make contributions with political and economic theories. At the start of the 20th century, Keynes had been witness to the first era of globalization, when daily life was transformed with technological advances like the telegraph, the telephone, steamboats and railways which helped shorten distances. That's why Keynes described that era as a global market where goods roamed freely.

Keynes had a great influence in the eastern economy during decades, arguing that the market economy would produce an excess and that if this happens, they would have to face difficulties, since the market mechanisms wouldn't function correctly and therefore the government would have to intervene. Roger E. Backhousey and Bradley W. Bateman (2014) explain that according to the Keynes perspective, the government definitely had an important role, but that is was clear that Keynes was convinced that private investment was the key to prosperity. Keynes believed in stimulating investment in new equipment, public services, transport and that the government was obliged to intervene providing work opportunity.

According to Torres (1972) Keynes starts "denying the validity of the law of free market economy, which dictates that it will take care of balance in employment. His analysis centered the variables that determine the general level of employment and economic activity, focusing the attention to the problems that attack the capitalist world." (Torres, 1972, p.144) Keynes defined general traits of the economic

concepts like the inflation and unemployment rate, gives a new look into the process of payment balance adjustments. He tried to save capitalism, rewriting the rules of the economy, thinking about the economy as everything. “The Keynesian theory also helped reconsidering the effects of fluctuating changes, and to focus the commercial politics onto new foundations.” (Torres, 1972, p. 145)

1.2 Import Substitution Model

The substitution of imports refers to that applied policy trying to promote national production evading ingress of international products. This way we produce what was previously imported. Having as main objectives: reach an internal growth, get to a positive economic balance, create employment and support national industry. (Berumen, 2002)

This model was a form to impulse the industrial sector for mostly Latin-American countries, effectively called the industrialization for substituting imports (ISI). Which was formulated by the Economic Commission for Latin-America (CEPAL) after the great crisis in the 30's.

“The structural theory of the industrialization substituting imports is in its essence an accumulation model – in its widest sense in that it takes care of growth, investment, employment and distribution in the long run, more than static efficiency as itself.” (FitzGerald, 1988, p. 2)

Consequently, a feasible and profitable industry was considered an objective for the Latin American countries who took the applied example of the big powers, to reach a growth and development of their countries. (Berumen, 2002)

This way, according to this model, the dependency that always existed between developing countries and developed countries will fade, and in consequence, there will be the possibility to self-produce industrialized products to satisfy the national market. Nevertheless, it has to be taken into consideration the fact that industry

requires some important aspect like technology, an educated workforce, sufficient infrastructure to get to producing quality products, and be able to compete with the international market later on when exporting. One of the disadvantages of the Latin American countries and other developing nations is the lack of the before mentioned requirements, contributing factors that have made it difficult to reach an efficient production.

On the other hand, there are other points worth mentioning like the fact that the Latin American countries and more in general developing countries are mostly known for their production of raw materials where more than 25% of these countries depend on 1 type of export, reaching a point of dependency on these materials and on specific providers from specific foreign countries. (Paris, 2008)

A consequence of this, is that the developed countries, our clients of mostly raw materials, which is fairly cheap to them, take our materials, change them into a finished product, and sell it again to us at a very high price. Like Paris (2008) mentions, “It’s so important for Latin America to diversify their export products in variety, quality and innovation; like they should diversify the markets to whom they export.” (p.71)

The point of this quote is that the key to a development and national advance is the fact that each nation must identify its weaknesses and strengths and play them out, opening doors to trade, and to the growth of their market goals, to have a bigger and more diverse market. Since we’re living in a globalized world where international business plays an essential role for the world economy. (Berumen, 2002)

1.3 Commercial politics and main tools for national protection.

As previously mentioned, trade is the engine for development and economic growth of a country, where free trading has resulted to be a driving force much better than autarchy. For that to be true, the level of specialization that each country applies in its production of its products and services needs to be that little extra that separates them from the rest, seaming more attractive to the global market, and in that way be able to satisfy different needs of global consumerism.

Something very true is that the act of international business implies that the different markets compete between each other and hence some will gain more than others. This is an inevitable situation seeing the gap between countries that have a high level of development, and other countries little technology, machinery, low levels of industrialization, insufficient infrastructure, which makes that some sectors don't have the capacity to compete within the same conditions as others. "Since the appearance of the modern nation-states in the 16th century, governments have been worried about the effect of the international competition on the prosperity of the national industries, and they have tried to, either defend said industry by applying limits to imports, or by helping exports subsidizing them, to be more competitive in the international market.

This indicated us that throughout time, trading has seen its ups and downs, that there are exceptions, that the disadvantages can show up when trading is not done with care, triggering worse economic problems, which can lead to having to take strict measures to solve them. According to Krugman, Obstfeld and Melitz (2012), the parts of the economy have been protected through time by the governments, from the competition of imports. It's very important to understand that this implies establishing restrictions or trading politics.

"Commercial Politics refer to the measures that governments apply to regulate commercial flows with the rest of the world and determines the degree of contact of national producers and consumers with worldwide prices." (Cuadrado, et al., 2010, p. 440)

On the other hand, according to Berumen (2002), comercial politcs are the "set of trading strategies that a country establishes, and is assumed to be helped by accomplishing economic markers." (p.169) In other words, comercial politics are a tool that goverments of countries use to protect, regulate and better their economies, and trading relations on an international level. Consequently, Salvatore (1992) indicates that trading restrictions can be justifiable when it involves the interest of national welfare, especially to protect workers and industries that would be efected by imports.

1.3.1 Tools of the National Trading Politics

There is a very important point to consider regarding commercial politics, and that is that this has 2 sides on a domestic level: demand and supply. Regarding demand “this comes from individual preferences”, which is applied using “interest groups”, who’re in charge of pressuring the government, and find the offer, which “comes determined by the preferences of the politicians and the public bureaucracy”. The balance of these 2 sides is maintained by the government that regulates and decides. (Steinberg Weschler, 2006)

The government is the one that analyzes the perspectives of the different areas, and can therefore apply a suiting tool of de National Commerce politic, affecting as little as possible the involved sectors, and make the intern trading flow positively. In short, we can say that “trading politics refers to the measures being applied by the governments to control the commercial flows and national consumers with worldwide prices.” (Cuadrado, et al., 2010, p.440)

National trading politics can be categorized using the next principal tools:

- **Tariff Barriers**

Tariff barriers are the most common tool used regarding trading control. When the import country taxes, that’s called an import barrier (Paris, 2008)

Paris (2008) concluded:

“Tariff Barriers are fundamental as a tool to raise prices of imported goods, with a double governmental purpose: collect more using the national customs, and by raising the prices of the imported goods, we allow national products to obtain a price advantage.” (p87)

According to the established by PROECUADOR, “Tariff barriers are official rates that are established and are being charged to import- and export companies at the customs office of a country, the moment the goods leave or enter the country.

These tariff barriers are classified in the next categories:

- Ad-valorem
- Specific
- Compound or mixed

- **Non-tariff barriers**

Non-tariff barriers refer to “a set of quantitative and qualitative restrictions that form part of the new protectionism. These work as control mechanisms for imports and are used to protect specific productive sectors in a country.” (Berumen, 2002, p169)

These non-tariff barriers are classified further on considering the main tools:

- Import quota
- Sanitary norms
- Import licenses
- Commercial norms
- Subsidies
- Import prohibition

After classifying the barriers as tariff and non-tariff, it will be indicated to what each one refers to.

1.3.1.1 Tariff Barriers:

Barrier:

“The tariffs are special tribute taxes to the country that introduces goods. In earlier times, they were considered as a kind of income, but nowadays they are handled as a neoprotectionism¹, as this makes foreign products more expensive encouraging domestic trade.” (Berumen, 2002, p.171)

“Neoprotectionism: acting on qualitative and quantitative factors of the products traded”. (Berumen, 2002, p.170)

¹ “Neoprotectionism: acting on qualitative and quantitative factors of the products traded”. (Berumen, 2002, p. 170)

In other words, the tariff is a burden that is applied to products that enter a country, to imported goods. It's a tax that has been used in history and is categorized in 3 types:

➤ **Ad valorem**

“The taxes are charged as a part of the value of the imported goods.

(Berumen, 2002, p.145)

This tax is expressed using a fixed percentage of the value of the imported product. For example: a product that costs 100 dollars will be charged 10% tax, which implies paying 10 dollars extra.

➤ **Specific tariff**

“A fixed quantity charged for each imported unit.” (Berumen, 2002, p.145)

This is a tax that is measured in money, and that is applied to each physical unit of the imported merchandise. This goes up according to the number of goods that enters the country. For example: An Ecuadorian company importing a Chinese television will have to pay \$100 of import tax to the Ecuadorian government, without the price of the television being taken into account.

➤ **Compound tariff**

“A compound tariff also exists, in which case a specific tariff as well as an ad valorem tax is being charged for the same product. “(Paris, 2008, p.78)

This tariff is the combination of the two previous ones, the ad valorem as well as the specific tariff. For example: A company will have to pay 10% of the value as well as an extra \$100.

As additional info, in Ecuador, NANDINA has been used since 2007, this is a common classifying tariff system of the Andina Community through the use of a nomenclature, where different imported products are being codified.

1.3.1.2 Non-Tariff Barriers:

➤ **Import Quota.**

“Another frequently used protectionism tool is the import quota. It consists of a direct restriction of the quantity of products that a country can import (For example, the yearly limit of Japanese cars to a specific number).” (Cuadrado, et al., 2010, p.445)

The import quota is considered to be a quantitate restriction to international trade because it limits the import to a physical quantity, determining the maximum volume or specific quantities we can import for a certain time and product. According to Chacholiades (1982), this measure it utilized especially when they want to fix the instability of the pay balance or augment jobs.

➤ **Health Regulations**

“Imports can be discouraged indirectly by setting administrative traps (complicated bureaucratic processes) or setting up technical norms: An example of this last case we have in sanitary and phytosanitary regulations, which sometimes can have a protectionist turn. ”(Cuadrado, et al., 2010, p.444)

According to PROECUADOR, this type of regulations tries to slow down the ingress of products that in a way can affect the health of the population for its harmful contents. Despite these regulations good intentions to regulate, it could be good for the habitants of the importing nation, this type of restriction converts into a wall because of the exaggerated requirements that makes it nearly impossible for some items to be imported.

➤ **Import licenses**

“Among the measures intended to restrict the quantities imported include quotas, which is typically implemented through import licenses. ” (Cuadrado, et al., 2010, p.444)

On the other hand, the import license is an administrative procedure in which an application is required to import goods and ingress them into the customs zone. The

OMC adopted an agreement about the Procedures of Import Licenses in Resolution N.17 of the International trading committee wherein the developing countries may apply it, considering its trading, development and financial needs.

➤ **Anti-Dumping Policy**

“The Anti-Dumping rights and compensatory are adopted tariffs in reprisal for inappropriate behavior of a trading partner:” (Cuadrado, et al., 2010, p.444)

“According to Salvatore, dumping is selling goods to a foreign market, lower than the costs, or lower than what is being charged internally.” (Berumen, 2002, p.176)
Using the Anti-Dumping policy, what can be tried to evade, is a price where goods are sold at lower cost than the local market and in some circumstances, even lower than its production cost. Dumping can make certain sectors being dominated in the domestic markets.

This policy protects the national market from abuse from international suppliers.

➤ **Export subsidies**

(Export)Subsidies: Cash rewards given out by the government to the exporters for goods with no close substitutes. (Berumen, 2002, p.180)

“The main tool of the trading policies geared towards promoting exports are the export subsidies. It’s a help given to producers or exporters to sell goods to the rest of the world, it being a fixed quantity (Fixed subsidy) or a percentage of the price of the good (Ad Valorem subsidy). The goal is to get the prices of the national product closer to international prices, permitting export at lower prices than the actual ones in the local market.” (Cuadrado, et al., 2010, p.446)

On the other hand, “Now, from an economic standpoint, export subsidies, fundamentally the non-economical ones, are more justifiable y defendable than tariffs, because they obey to an objective to increase national business, more than being a restriction in it’s borders.” (Paris, 2008, p. 79)

It’s considered a financial assistance of the government applied to a national product, to stimulate consumption, production or to reach a competitiveness with the cheap imports that enter the country.

After the indicated we can conclude that when a country imports, it tries to satisfy its internal needs, but when the national supply suffers damage in the national or international market, commercial policies are a way to fortify the economy, restricting the entry of foreign products, and to encourage the internal sector and competitiveness.

The protectionist measures will always have its advantages and disadvantages depending on the perspective, being from a consumer, importer or exporter view. However, the adopted measures are decided by the state, its interests and situation, taking into account the best measure possible.

1.4 Situation of Economic Relations

In times where the realities are nothing more than the results of a past with significant events that are linked between them, and at the end, a success after success, which are part of everything. What we're trying to say with this is that the situation that Ecuador has had to face in different aspects, but mostly economical, which is the central point of this investigation, is nothing more than the consequence of different governments, adopted policies, circumstances like dollarization, among others, which has had as an effect a series of decisions which have effected or influenced different sectors of the country.

Since the second part of the 20th century, Ecuador has defined itself as a producer and exporter of bananas, in this way consolidating its traditional primary exporting model. Nonetheless, oil represented a bigger source of income for the country, taking into consideration that it started exporting in the 1970's up to the present day.

As an example, we can use the military dictatorship of 1973-1977 which decided to make use of the excess of oil exports to impulse an industrialization of replacement imports, reaching a bigger variety of national production, transforming the structure of national production etc. In the year 1971, the oil exports grew significant from 199 million dollars to 1.124 dollars in the year 197, and in the year 1984, it grew to

2.481 million dollars. It's also worth mentioning that oil has contributed with 47% of the exports of the country between 1972 and 2003. (Carvajal, 2011, pp.95-99)

Table, Summary of the Ecuadorian economic history 1950-2008

Stage of the Ecuadorian economic history	FASE	SUMMARY
1st stage: 1950 - 1971	Banana Boom	Characterized by the shortage of foreign exchange, the deterioration of the interchange rules and substantial modification in the management of economic politics
2nd stage: 1972 – 1982	Oil boom and industrialization	Characterized by the abundance of foreign exchange and intense growth impulse both by the internal and external demand.
3rd. stage: 1983 - 1999	Stagnation	This stagnation period is marked by the implementation of policies and changes in liberalization, by strong restrictions of the internal demand and for the deterioration of the living conditions of the population.
4th stage: 2000-2008	2nd oil boom and foreign exchange	Corresponds to the 2nd oil boom, and a new cycle of abundance of foreign Exchange, with the following recovery of incomes of popular sectors. Impulsing the remittances of the emigrating population. Only since 2007 the planning power is regained, along with the regulation and government power. An expansion of the imports was caused and an insufficient offer. The dollar is accepted as the currency and the country slowly realized that turning back would be unacceptably expensive.

Source: (Carrasco Vintimilla, Beltrán Romero, & Palacios Riquetti, 2011)

Elaborated by. The Author

This gives us an idea of how ingrained Ecuador was with oil, of which it depended, and just how important it has been since the beginning for the economy of this country, but also of how much we are prejudiced we are when there is a low production of oil. On the other hand, the remittances of the migrants have

represented a favor to our economy, seeing that when they send back money, it triggered consuming and local investment, which is positive, knowing that the foreign exchange stays in the country, helping the development of the economy and improves the welfare.

In the same way, considering the commercial regimen, Ecuador has made big leaps in liberating and improving predictability, as it has reached transparency, especially with a big impulse in the 90's. These things have been reached with the application of autonomous decisions, both regional and multilateral. For example, the consolidation of its tariff lines, and the reduction of the types of tariffs for the most favorite nations (NFM). (Worldwide Trade Organization, 2015) Effectively, the tariff has been one of the primordial tools in economic politics, and because of that a source of fiscal income. In Ecuador, the commercial politics found itself regulated by the law of International Business and Investments called LEXI, where the 1st article mentioned that this was to promote development and an efficient use of its productive resources.

According to the information provided by the System of Information about International Business also called SICE (2015), related to the commercial partners, Ecuador has had a big integration with Latin America. Nonetheless the United States and the European Union have been the main markets for some time now. The participation of China for example, corresponding to total imports towards Ecuador, represents an increase from 6.5% in 2005 to 7.8% in 2010. Furthermore, the general economy is vulnerable to external commotions, in this case not even Ecuador is an exception, as with the crisis that started in 2008.

“The result of the worldwide crisis has been the deceleration of the growth thanks for a big part to noticeable reduction in oil export prices, as well as volumes (caused by the insufficient investment the sector has been suffering for some time now) which has worsened the remittances of the Ecuadorians, the 2nd most important source of foreign exchange.” (System of Information about International Business, 2015) For example, the SICE (2015) indicates that the export value of oil has lowered from USD 97 per barrel in the first 7 months of 2008 to USD 54 per barrel in the course of 7 months until February of 2009.

Being as the economic situation of Ecuador found itself in demise, the government decided to implement the safeguard measures with the intention of fixing the payment balance, using quantitative restrictions and added tariffs to try to limit imports and make the national production stronger, thus preventing more foreign exchange going abroad. For the month of December of the same year, the assessment of the exit of foreign exchange increased from 1 to 2 percent making the foreign exchange stay in the country. (COMEXI).

In accordance with the indicated by El Universo (2009), “There existed motives to fear the potential dangerous effects for the Ecuadorian economy, mainly caused by the fall of the remittances of the migrants, the significant drop in oil prices, the decrease of the oil exports and the depreciation of currencies of some commercial allies.”

Resolution 466 of the COMEXI indicates that the 16th of January in the hall of sessions of the Foreign Trade and Investment (COMEXI) a voluntary agreement was signed between the national government of Ecuador and several represented importers, to safeguard the payment balance. In this document both parties recognize the need to restrict imports to placate the aftermath of the global crisis and its adverse effects on the national economy. Ecuador also received the support of ALADI, protecting the application of safeguards to correct imbalances of the payment balance.

According to the resolution 466 emitted by COMEXI dated 22nd of February of 2009, the Full Board was aware of the report submitted by the Central Bank of Ecuador through which it reports the existence of a severe deficit in the balance of payments by Ecuador in 2009. It's also emphasized that an urgent reduction of imports was necessary, for an amount of two hundred thousand and nine million dollars, (US \$ 2.169'000.000,00). To implement this measure, they wanted to balance the external sector for a sufficient reach in growth and stabilizing the Ecuadorian economy.

In the same way, the article of the first resolution 466 indicates the following: “Establishing a safeguard for the payment balance, applied generally and without discriminating imports of certain countries, including the ones that have trading agreements with Ecuador, are allowed temporarily for a year with the following rules:

- An ad valorem tariff
- A specific tariff
- Establishing quotes, limiting the value of imports

For the year 2010, the Organic Code of Production, Trade and Production is created which the government implemented to reduce the imports and impulse exports” Includes a series of measures destined to promote the selective substitution of imports, investment and production of goods of higher added value, in particular for small and medium companies situated in regions outside the main business centers.” (System of Information about International Trading, 2015)

Definitively, the application of safeguards was established as an answer to a bad situation that didn't have a way back. Nonetheless, Ecuador had the intention of diminishing the reach of the taken measures according to the situation of the country that would have bettered. It's clear that these restrictions and prohibitions were affecting diverse products and the fact that Ecuador is part of the OMC, ALADI and the CAN, and therefore as previously mentioned to be part of an association always involves obligations but also rights, and especially when the economic situation of a member country is in adverse circumstances such as the Ecuador at this time.

CHAPTER 2

ECUADOR'S ECONOMY BETWEEN 2007 AND 2013

2. 1 The Real Sector of the Economy and its Evolution

Ecuador is a country that has faced a variety of economic ups and downs generated by different reasons like a deficit in the trade balance after a major outflow of foreign exchange in the country where tough decisions had to be made in order to safeguard the welfare of its population and to encourage domestic production generating a dynamism in its economy.

However, being highly dependent on primary commodity with an existing crisis abroad, this situation certainly affects the economy. The footwear sector is an important part in the Ecuadorian market, also it has its history of positive and negative developments with unique features that make this activity and unique product.

2.1.2 Features of the Ecuadorian Economy

Several authors characterize the Ecuadorian economy as a "primary exporting monoproducer", a fact which strongly affects the possibilities of economic development and the effects that have been caused on our economy by different contextual circumstances from external and internal issues.

Dependence on primary products such as oil, bananas, cocoa, shrimp and tuna, generate a high correlation of the situation of our economy with the price of these "commodities".

In addition to these problems, after the year of 2000 date in which Ecuador adopted the US dollar as currency, the country eliminated its monetary policy as the tool for controlling external shocks; this is the exchange rate management as a compensating instrument of imbalances in the external sector of the economy. This

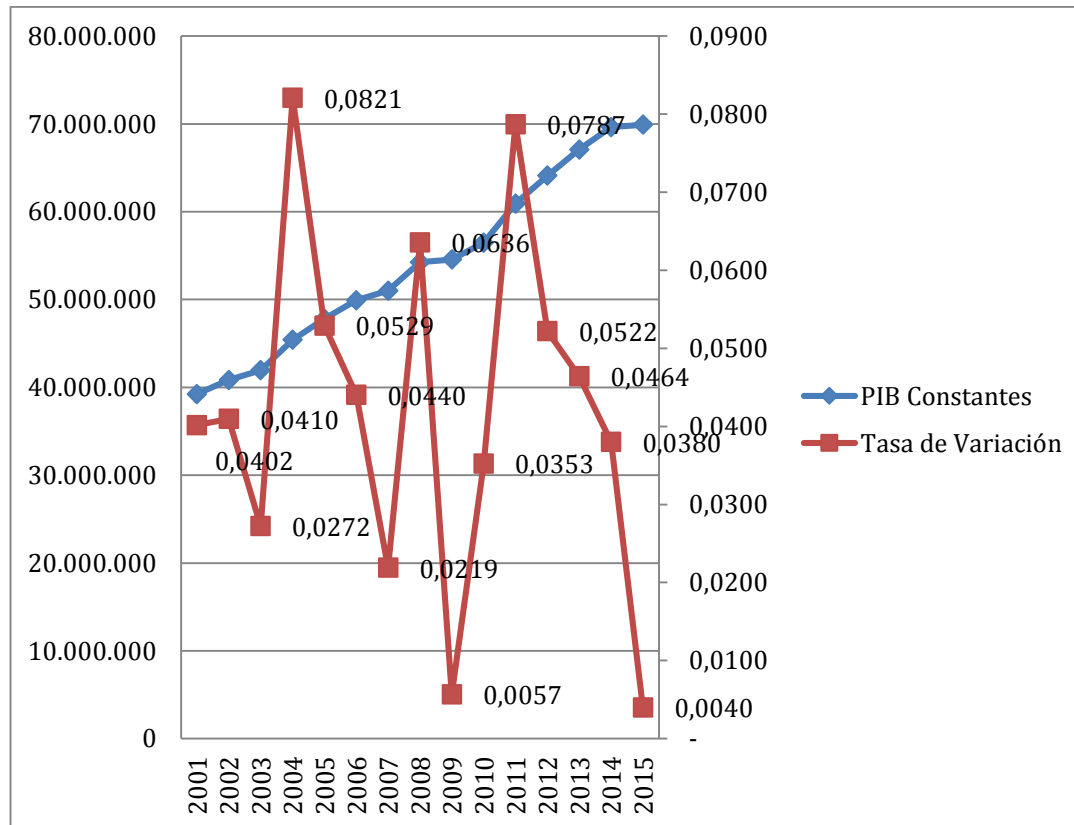
situation evidently complicates the Ecuadorian competitive position and becomes dependent to a hard currency; the dollar.

It might be the fiscal and tariff policy the one that achieves a balance to the ecuadorian economy when external difficulties come along because its monetary and exchange rate policy has dissapeared. In addition, there has been a weak industrial development in the country, with low self sustainability and productive deficiencies in the quality of production.

2.1.3 The Real Sector of the Ecuadorian Economy

The production of our country has been marked on these last nine years by a sustained growth that has been interrupted only at two points, that is in 2009 and by the end of 2015, as shown in the following graph:

Figure 1. Evolution of GDP at constant prices and rate of change from year 2001 to 2015



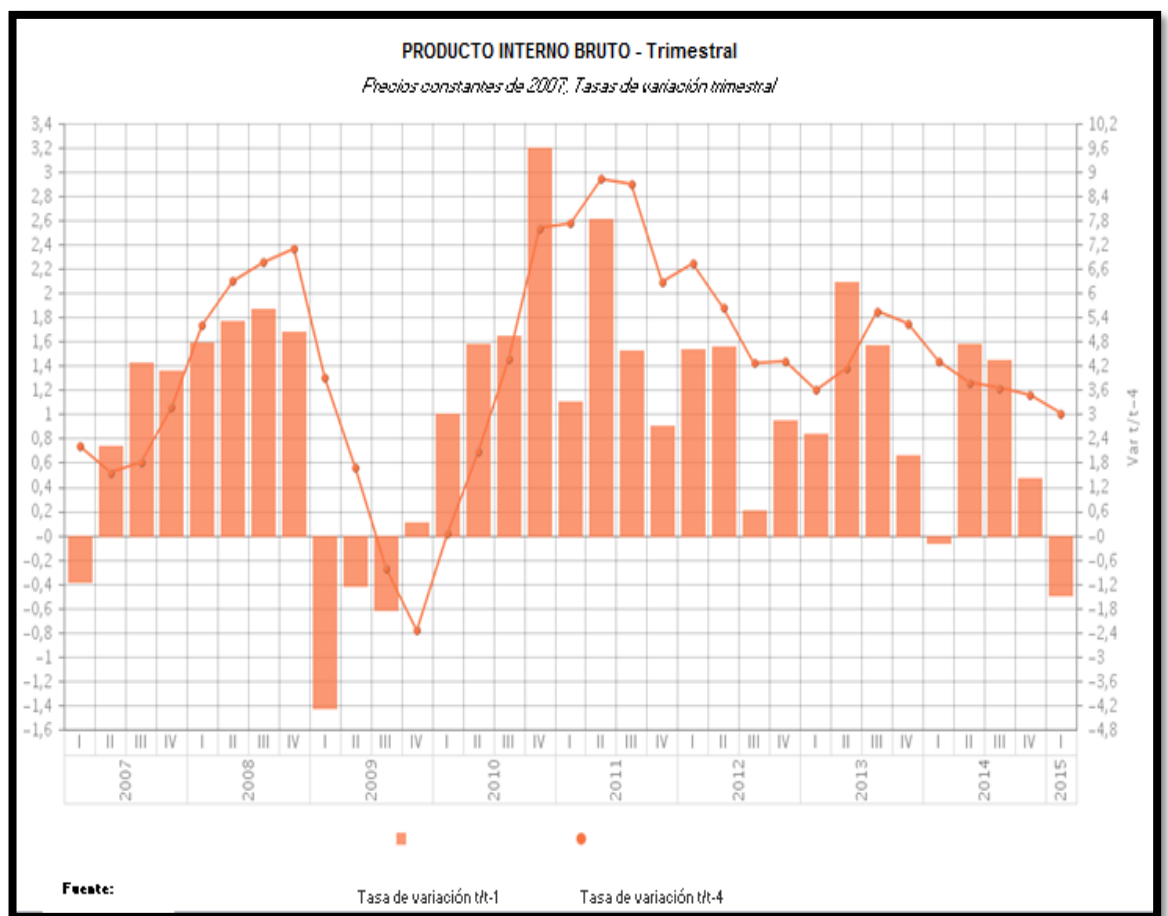
Source: Banco Central del Ecuador

Elaborated by: The Author

By the year of 2015, the Ecuadorian Central Bank forecast mentions a GDP growth rate close to 0%. However, it is important to note that at all times except in 2009 and 2015 the value of the rate of change of the GDP was above 2.5%.

For greater details, it is possible to see the evolution that GDP has per quarter, as shown in the following table:

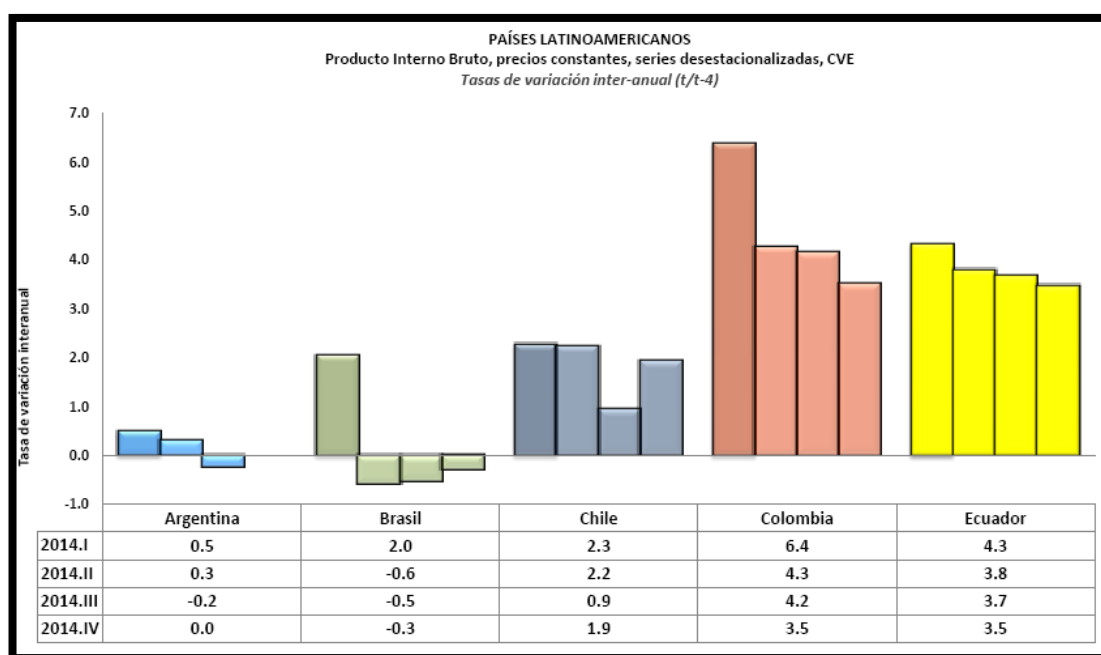
Figure 2. Gross Domestic Product - Quarterly



Source: Banco Central del Ecuador
 Elaborated by: Banco Central del Ecuador

It is important to note that until the year of 2014 the level of growth of the Ecuadorian economy can be considered a very good one, especially when compared with the same index of some Latin American countries, as the Central Bank of Ecuador shows above:

Illustration. 3 Latin American Countries (annual percentage change - Gross Domestic Product)



Source: Central Bank of Ecuador and the Institute of Statistics
Elaborated by: Central Bank of Ecuador

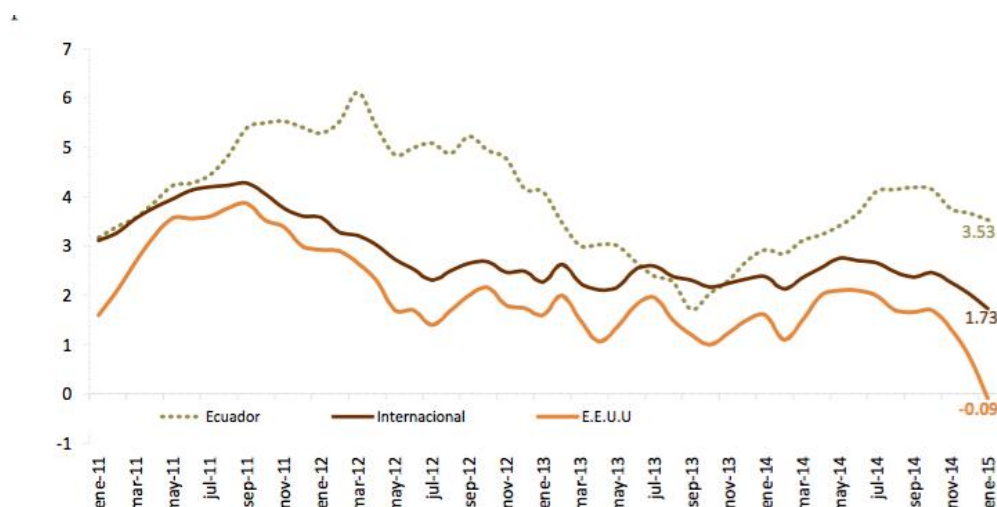
On the other hand, among the most dynamic components that motivated to the fourth quarter of 2014 can be identified in order of importance as the following: Government Consumption Expenditure, Household Consumption Expenditure and Exports.

What has just been mentioned in the preceding paragraph shows the importance of the state as a catalyst for the Ecuadorian economy.

Another extremely important variable in the analysis of the macro economy is inflation, understood as the constant evolution and uniform prices in an economy.

Since Ecuador changed to dollar, inflation has been dependent on this currency where during the entire analysis period of 2011-2015 a high stability and a downtrend occurred, as shown above:

Figure 4. Annual Inflation: International, Ecuador and the United States (Percentages)



Source: Bancos Centrales e Institutos de Estadística de los países analizados

Elaborated by: BCE

As it can be observed (Banco Central del Ecuador, 2015), the lowest annual inflation in Ecuador was in September 2013 ranking among international inflation and USA inflation, while during the month of March 2012 it was considered as the highest.

The economy reacts with inflation to economic growth which was experienced between the analyzed period and also to production difficulties caused by strong winter. This has allowed the economy despite the difficulties of the time, to continue supporting measures of various kinds that tend to rise the prices.

However, in comparison to April 2015, Ecuador has an inflation way below the Latin American average, as observed:

Figure 5. International Inflation (Percentages April 2015)



Source: BCE, Central Banks and Statistical Offices of the countries analyzed.
Elaborated by: BCE

2.1.4 Secondary Sector, Subsector Leather, Leather Goods and Footwear

"The manufacture of leather, leather products, and footwear" is a productive branch of outstanding prospects for the consolidation of the domestic market. It also has excellent options to expose the products in the international market. Capital endowments and required technology, its dependency (especially with livestock through tanneries) and the volumes of manpower required for tanneries, all represents an option to promote the endogenous development of Ecuador. "(FLACSO - MIPRO, 2011, p 3).

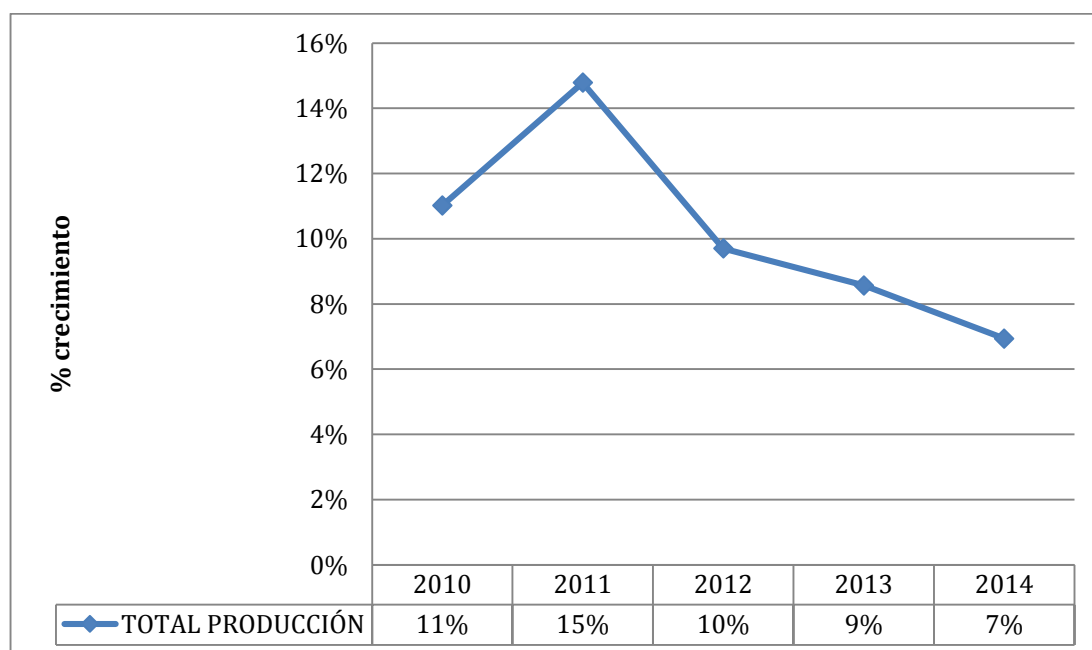
Sin embargo, la producción del mismo ha tenido que atravesar diferentes épocas con ciertos altibajos económicos, pero a pesar de ello el sector de calzado ha logrado permanecer en el mercado, la pregunta es ¿de qué manera? Responder esto involucra diferentes análisis que serán realizados a continuación.

The evolution of the Ecuadorian economy in the last twenty years has at least three difficult times, the first in late 1997 and early 2008; a second stage in 2008 and 2009; and a third time in early 2015.

The difficulties presented in the first moment marked the beginning of dollarization, the second time was due to the international financial crisis that marked the beginning of high oil prices, and the third time with the sudden drop of oil prices, as well as a strong appreciation of the dollar, a situation that makes our products less competitive for export.

On the other hand, it can be observed in the following illustration the evolution of growth in the sector of textiles and footwear during the period of 2010 – 2014. The years with the highest rate of growth was between 2010 and 2011, since for the following 3 years the rate ranged 5%, 1% and 2% respectively, reflecting a decrease within the sector, especially between 2011-2012.

Figure 6. Evolution growth rates of total production in the field of textiles and footwear



Source: BCE
Elaboration: BCE

Moreover, it is important to note some features that presents the subsector about the total economy:

- At least 19% of what is required in the country is imported.
- The sub industry generates slightly more than 39,000 jobs.

- Boost the economy positively as it demands different types of products like yarn, textiles, cardboard, paper etc.

In regards to footwear evolution, it is important to note the following:

- It is a subsector that integrates craftsmanship in various regions of the country.
- At a general level, it is estimated that about 80% of domestic production contains national component, except for those items that are prepared from leather such as shoes, sweaters, wallets, jackets, among others that can not be separated from the raw materials coming from outside the country. (FLACSO - MIPRO, 2011)

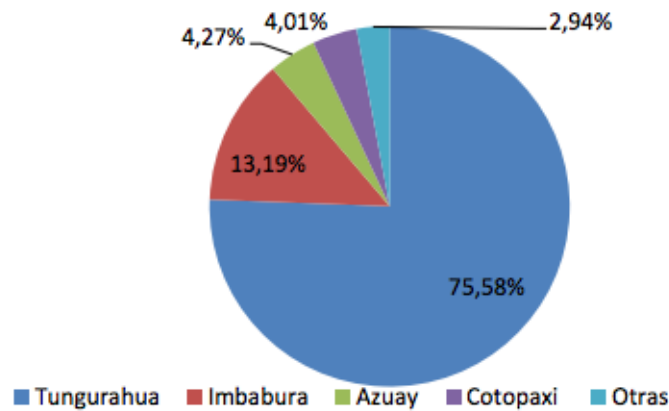
Leather is considered to be one of the main materials used for shoemaking therefore, it is important to emphasize on the following:

"Although manufacturing leather goes back from ancient traditions and it involves important cultural elements however, over the past two decades the leather and footwear industry tends to be globalized leading to serious challenges to those involved in this sector and living in places with less appropriate technological, infrastructural and institutional conditions which cannot compete in more advanced global markets" (FLACSO - Mipro, 2011, p. 3).

This point emphasizes on how highly technology can influence an specific sector of the industry like footwear, and how fast it emerges. This will be discussed later on this study focusing in the city of Gualaceo.

Other provinces that are also known for producing leather are Tungurahua, Imbabura, Azuay, Cotopaxi.

Figure 7. Main Zones For Leather Production in Ecuador



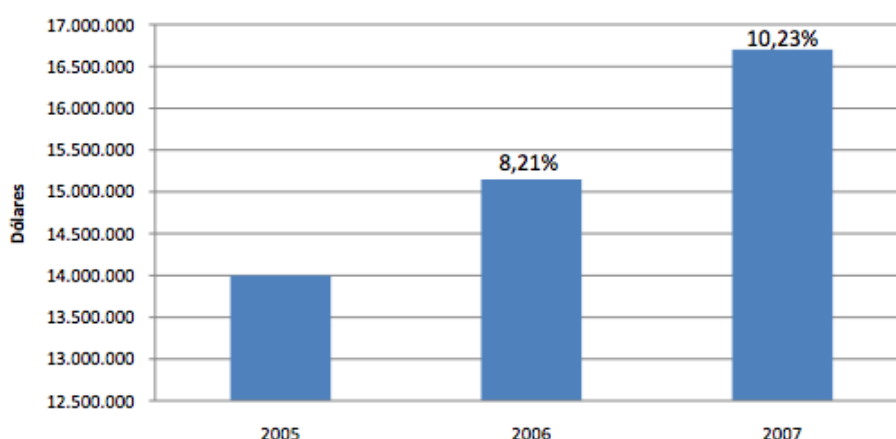
Source: Asociación Nacional de Curtidores del Ecuador

Elaborated by: Centro de Investigaciones Económicas y de la Micro, Pequeña y Mediana Empresa

The graph indicates that this subsector in the case of Azuay which is the province where Gualaceo is located, has a percentage of 4.27% representing craft workshops engaged in such activity, "with 100 productive units." Cotopaxi on the other hand has "94 workshops" and with a percentage of 4.01%. On the other hand, the province of Tungurahua has the highest percentage of 75.58%, this according to the National Association of Tanners of Ecuador (ANCE) represents its "1.770 artisan workshops dedicated to the production of leather garments and shoe stores. " (FLACSO - Mipro, 2011)

On the other hand, the salaries from for the people invoved in this sub-sector of leather and footwear depends a lot on the volume of production.

Figure 8. Wage - Leather and Footwear Sector (2005-2007)



Source: Instituto de Estadística y Censos (INEC).

Elaborated by: (Flacso - Mipro, 2011)

The graph indicates how between year 2005 and 2007 the wage amount went through a significant increase, where in 2006 it rose by 8.21% over the previous year, while 10.23% in year 2007 compared to 2006. In other words, the 14 million US dollars that were paid as total by 2005 it rose to 16,700 million US dollars by 2007.

"This trend could be a result of wage increases set by the national government and not necessarily because of an improvement in productivity in the footwear sector. According to information from INEC, in year 2010 the average of labor income of the leather and footwear sector was of 305.100 million US dollars. "(FLACSO - Mipro, 2011)

Activities related to leather, especially shoe manufacturing but also tanned leather, are exposed to a relentless foreign competition, especially products from China, Colombia, the US and Brazil. The preferences of domestic consumption lean toward national product, under conditions of liberalized trade. During the year of 2009, tariff barriers were established in order to protect the current account of the balance of payments, which also served to promote the development of the leather and footwear sector.

The success of its development, with all the positive external consequences for other industries, for employment and for the consolidation of the domestic market,

will depend on public support to domestic producers and therefore products, in order to increase productivity of the sector in an synergistic environment that should work on a way to compete with greater quality in specific niches of the world market. (FLACSO - MIPRO, 2011)

In regards to imports between the years of 2008-2009 its evolution can be seen in the chart below.

Table 2. Evolution of Ecuadorian Imports Between 2008 and 2009

Categoría	Millones de dólares		Variación anual
	2008	2009	
Productos agropecuarios	1,042	851	-18.4%
Industria alimentaria, bebidas alcohólicas y tabaco	700	629	-10.2%
Productos minerales	3,674	2,737	-25.5%
Industria química	2,239	1,939	-13.4%
Plástico y caucho	1,107	886	-19.9%
Madera, papel y otros	529	446	-15.6%
Textiles y calzado	751	508	-32.4%
Metales comunes	1,972	1,287	-34.7%
Máquinas eléctricas	3,872	3,327	-14.1%
Material de transporte	2,091	1,635	-21.8%
Otros bienes	875	845	-3.4%
Total importaciones	18,852	15,090	-20.0%

Source: Trade Map

Elaborated by: Trade Map

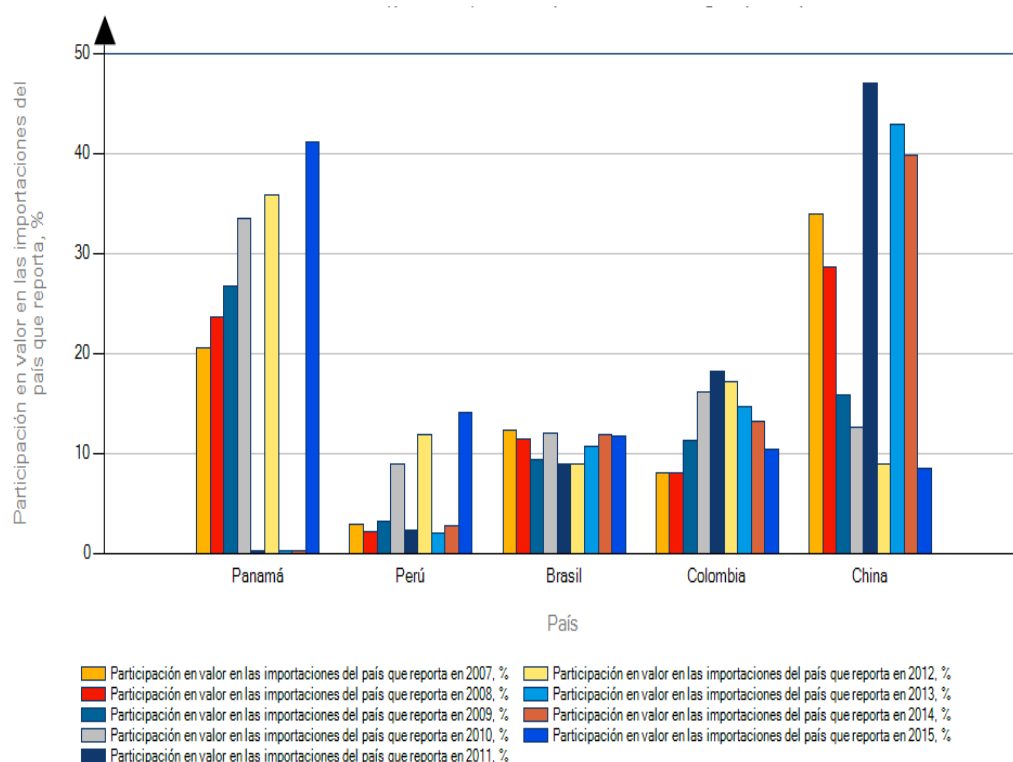
As Table 2 clearly indicates, the category of textiles and footwear presents a downward trend since as imports declined from \$ 751 million in 2008 to 508 million in the year of 2009, date where the tariffs were applied, reflecting an annual variation of -32.4%.

On the other hand, the highest annual variation represents the category of base metal with a variation of -34.7%, while the food industry, alcoholic beverages, and tobacco was the category that had less impact because their annual variation corresponds to only -10.2%.

Regarding the footwear industry, this can be considered as positive since the application of the barrier, this government's measure was established as one of the reasons to decrease the amount of imports and therefore create a greater incentive for domestic production.

Illustration 9 shows how providers of footwear coming from abroad interact in Ecuador, this information considers chapter 64 named as Footwear, gaiters, boots and its similar parts.

Figure 9. List of Footwear Providers and their Imports to Ecuador (Product: 64 Footwear, gaiters, boots and their similar parts)



Source: Trademap

Elaborated by: Trademap

According to the information provided in the illustration, the main suppliers of footwear are Panama, Peru, Brazil, Colombia and China. The chart below shows as well the same information as figure 9 to have a more clear idea of the presented data.

Chart 3. Participation Percentage of Foreign Footwear Suppliers importing to Ecuador. Year 2007 - 2015

	Panamá	Perú	Brasil	Colombia	China
2007	21%	3%	12%	8%	34%
2008	24%	2%	11%	8%	29%
2009	27%	3%	9%	11%	16%
2010	33%	9%	12%	16%	13%
2011	0%	2%	9%	18%	47%
2012	36%	12%	9%	12%	9%
2013	0%	2%	11%	15%	43%
2014	0%	3%	12%	13%	40%
2015	41%	14%	12%	10%	8%

Source: Trademap

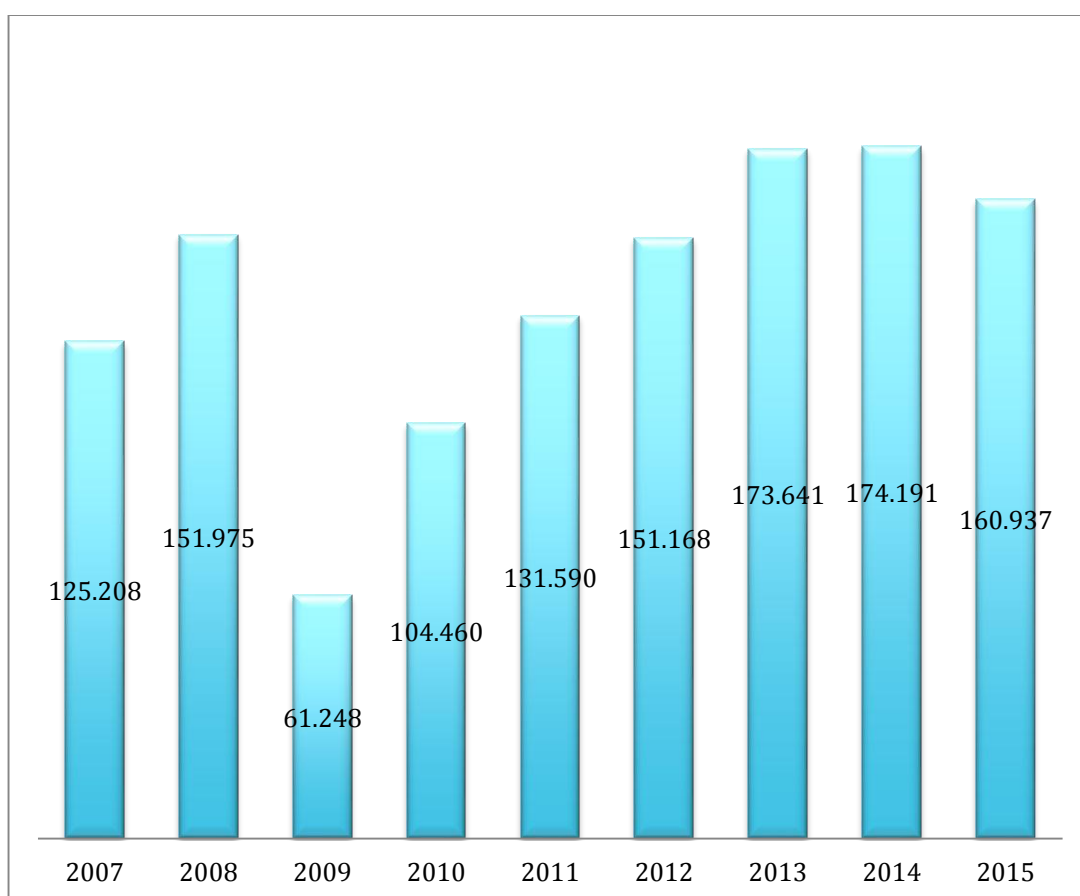
Elaborated by: The Author

This chart indicates three main points, the first observation is that China is the country with the highest participation percentage of imports to Ecuador over the years as to what concerns Chapter 64, this is between the years of 2007-2015. On the other hand, Brazil is the country that shows to be the most consistent on this business with Ecuador where neither rises nor falls drastically it stays between 9 and 12 percent share as a supplier. However, for the case of Panama, even though this country did not participate as a footwear provider to Ecuador for three years, but for the following years this country maintains a significant percentage between 20 and 30% of participation in where even during the year of 2012 and 2015 it even rose with a higher participation than China. On the other hand, something important to mention is the fact that the year with less imports to Ecuador on

footwear indeed it is the year of 2009, which actually proves the theory that the government had when applying the barrier tariff.

The same results can be also verified as import values;

Figure 10. Values (in thousands of dollars) imported by Ecuador. Chapter 64 (Footwear, gaiters, boots and similar articles and parts) Years 2007-2015



Source: Trade Map

Elaborated by: The Author

Comparatively, the graph indicates again how during 2009 after the application of the barrier tariff the different countries involved in footwear decided to reduce their volumes of imports and their participation in general towards Ecuador.

The last three charts also indicate how the values are gradually rising and how the countries that have been our main suppliers for a while still remain until now in our domestic market.

2.2 The External Sector of Ecuador

2.2.1 Balance of Payments

In what is referred to as the Balance of Payments, the Central Bank of Ecuador (2010) provides us with the following definition: “ The balance of payments is a analytical tool that allows us to follow the movements of foreign currencies that enter and leave the country. This tool registers the movements associated to the international trade operations, the net income of capital that serves as foreign investment, migrant remittances and external debt both public and private, among others. (Central Bank of Ecuador, 2010)

Therefore, when we define Ecuador as a mono producer primary exporter, we’re marking the characteristics of our external sector.

This is: dependent with a low added value and in its majority concentrated as well in products as in markets.

The gesture, the dependency and therefore the importance of the external sector and the Ecuadorian economy, especially after the dolarization, is a critical aspect, both for the impact on the level of internal production, as well as the direct possibility to influence the macro economic monetary balances, since lacking money, the loss of monetary politics makes our economy more vulnerable. Now (after the dolarization) the monetary supply is directly related to the balance of payments.

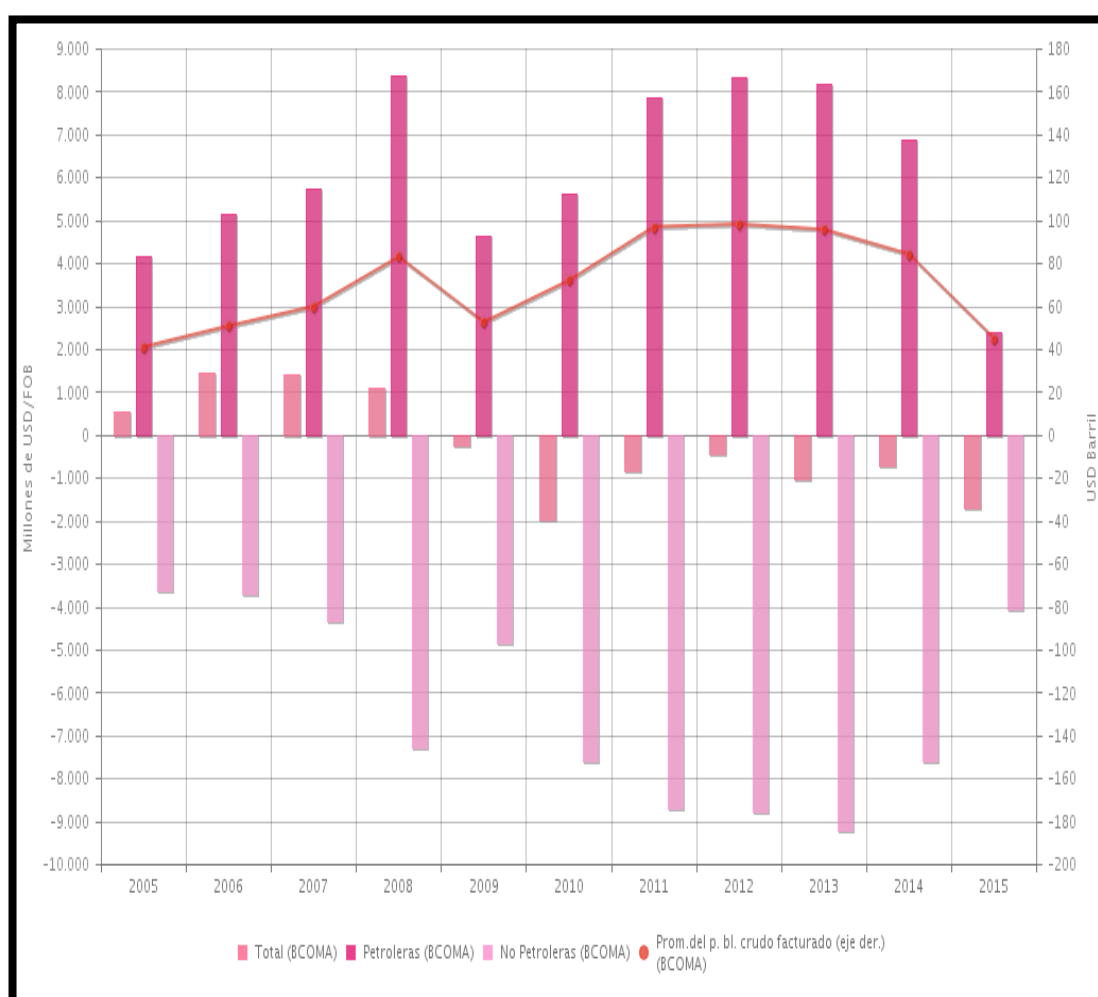
The movement of this account therefore defines in a big way the dynamic and perspective of the economy in its totality. How can we appreciate the conditions of the Ecuadorian economy when we don’t have monetary politics that soften the

effects of the external crisis, which are very dependent and sensible to these impacts.

2.2.1.1 Comercial Balance and its principal applied politics

From the analysis of the payment balance, mainly the evolution of the comercial balance constituted of the exports minus the imports can be identified.

Graphic 11. Evolution of the Commercial Balance 2005 - 2015



Source: BCE
Elaboration: BCE

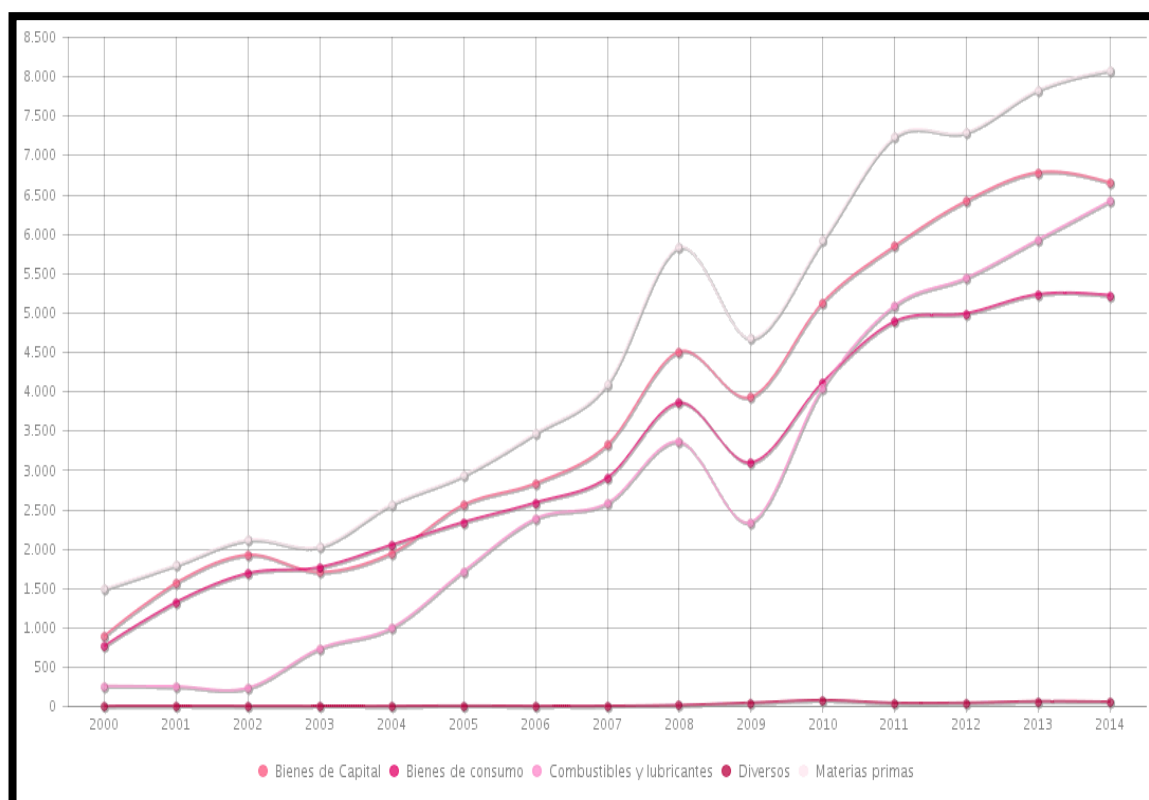
It can clearly be observed that the best position is when petrol is included, and the worst is when it is excluded in exports.

It's also relevant to observe the credit of the commercial balance (imports) in 2009 – 2010 and in 2015, moments in which the government saw the necessity to incorporate measures to slow down imports. It's important to identify that the deficit values in the commercial balance have been there since 2009, and are being accentuated in 2010 and 2015.

With these problems, it's important to mention the level of inbalance that is caused by importing fuel and lubricants, mainly in the 2 last years, as well as the lower direct foreign investment in the last year, which is still a little bit higher than the ones in 2006 and 2010.

In the case of the fuel imports we can observe an important growth starting in the year 2011:

Graphic 12. Imports by CUODE 2000 – Millions of dollars



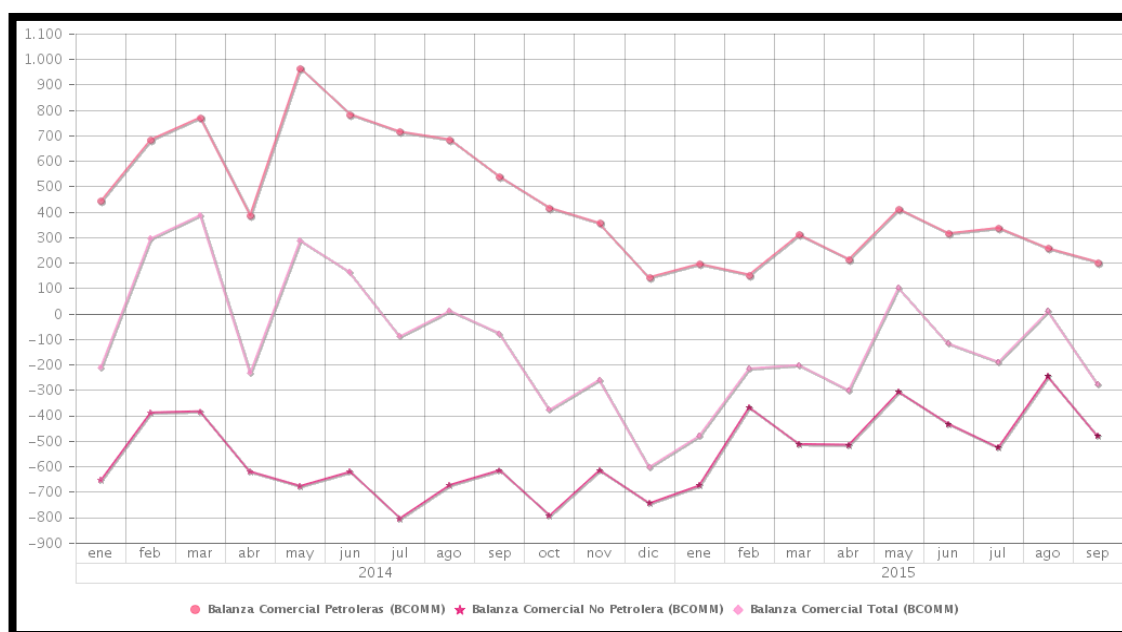
Source: BCE
Elaboration: BCE

This explains why we changed our main site of energy production, since 2014 it represents almosts 25% of the total imports of the country, the same as the capital assets.

It's important to observe that one of the most important import categories is the raw material one, which proves the dependency of our real economy.

Closer in time, it's posible to observe the evolution of the comercial balance which is negative and depends a lot on oil and its price.

Graphic 13. Commercial Balance (January 2014 through September 2015)



Source: BCE

Elaboration: BCE

As we can see, the comercial balance has been mostly negative, with small jumps. This situation is sharpened by the drop-in oil prices and we can barely notice a difference since March, month when the safeguards were applied.

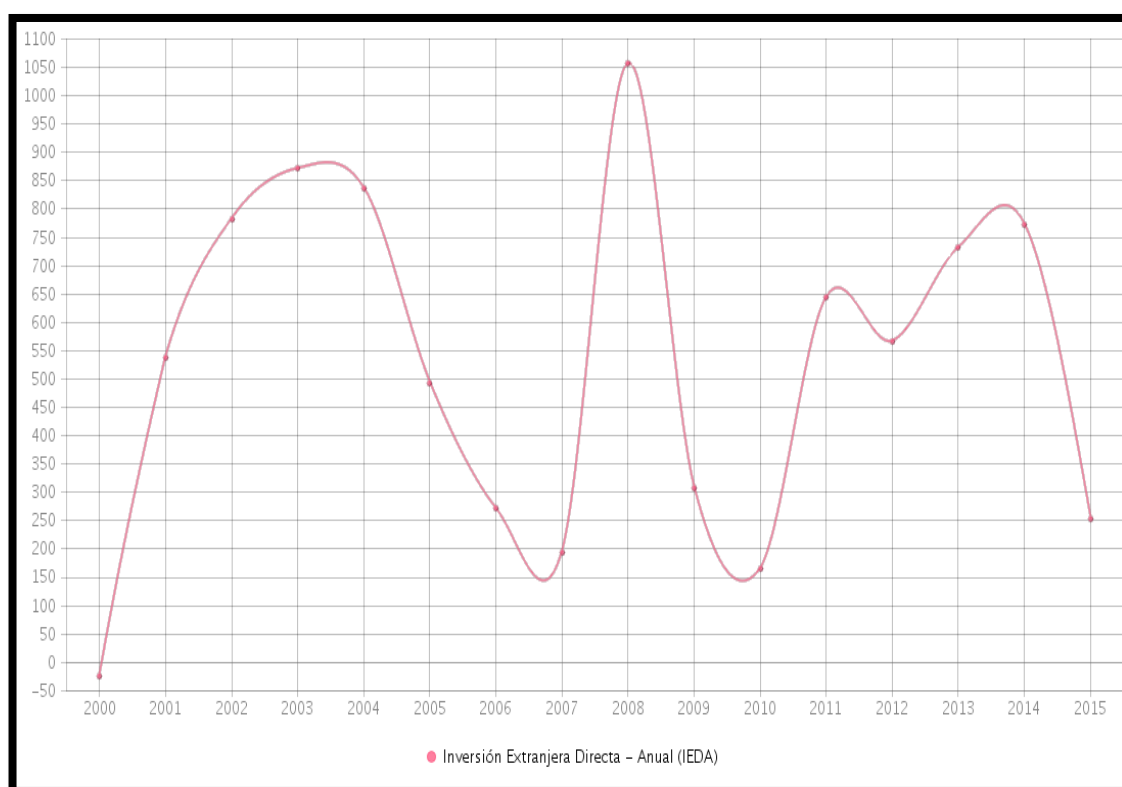
2.2.1.2 Capital Balance and its Prime Applied Politics

The capital balance is mainly made up of 2 accounts. The first is called direct foreign investment, which registers the net flow of income and outgoing financial actives, whose main goal is the application to economic activities of the primary, secondary or third sector of the economy.

The second account is the one that registers the net international loans. , which is the difference between the registered as a loan, and the value of the mortgages .

Regarding the direct foreign investment, it only represent a billion dollars at most, as seen in the next graphic

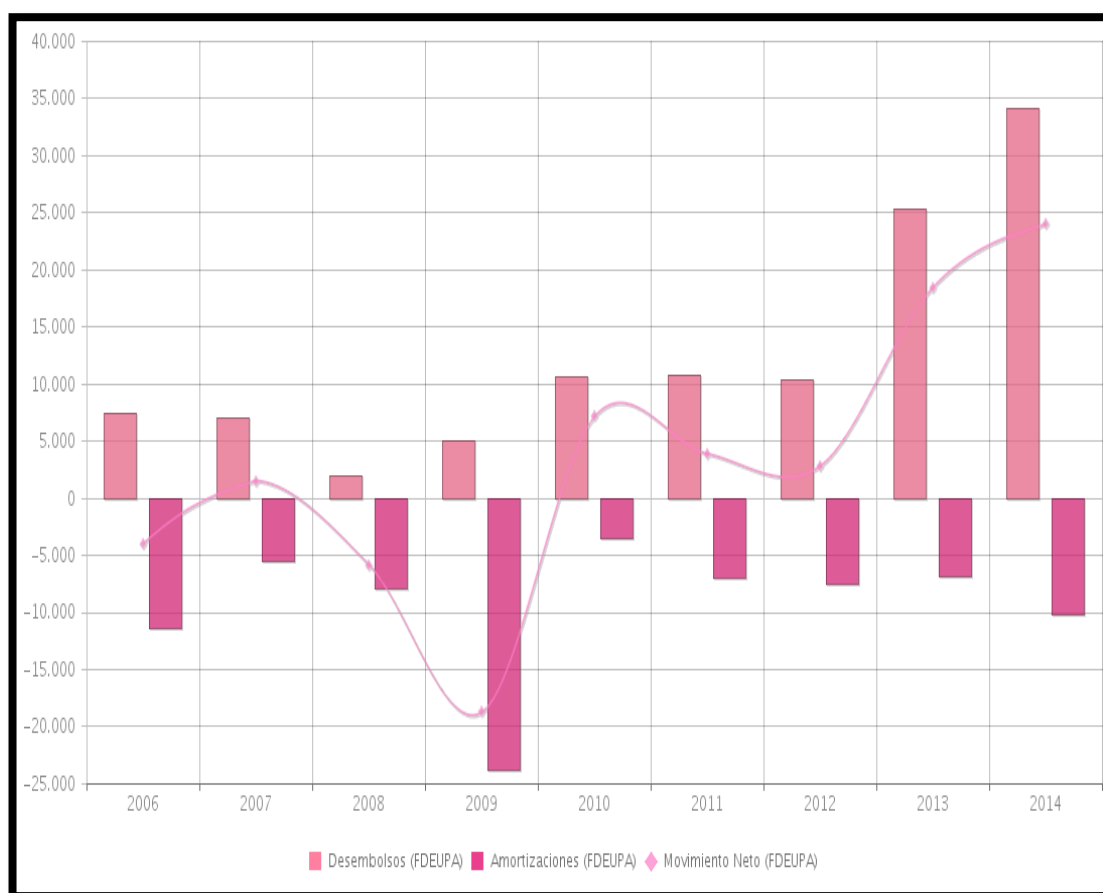
Graphic 14. Evolution of the Direct Foreign Investment 2000 - 2015



Source: BCE
Elaborated by: BCE

Moreover, the value of loans received by the country and its evolution, which becomes a temporary escape valve to cover the external crisis, can be appreciated in the following graphic:

**Figure 15. Evolution of Net Public Debt of Ecuador from 2006 to 2014
In Thousands of Dollars**



Source: BCE

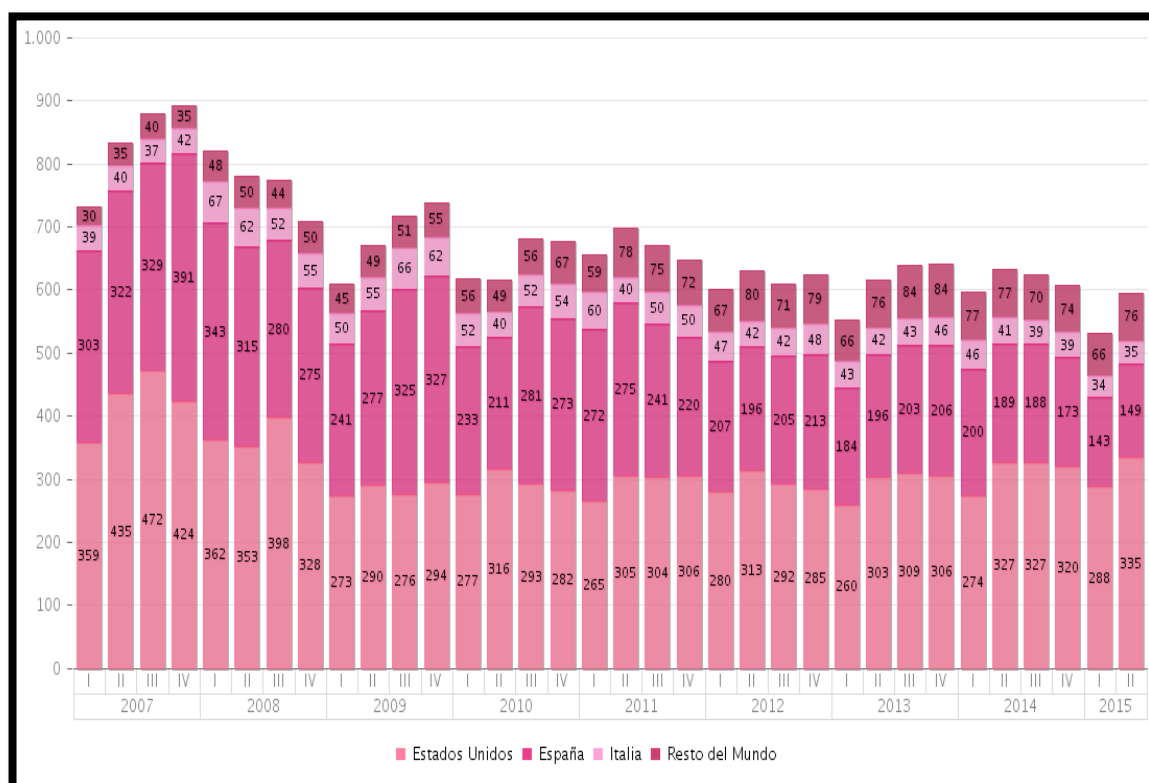
Elaborated by: BCE

The figure clearly shows the growing evolution of debt levels of the Ecuadorian economy, the same as compared to the value of GDP growth reaches just over 17% by 2014. It is expected that by 2015, at a very low level of growth, this value is significantly increased (rather than 20%), as has been borrowing a stabilization mechanism of the economy to the prevailing external crisis.

Another important account in the payment balance in Ecuador, is the flow of remittances which went down in 2009 and today, thanks to the recuperation perspective of the United States, a noticable improvement is expected.

This category, in spite of slowing down, is important for the Ecuadorian economy. In 2014, remittances represented a total of 2461 million dollars and in the two first trimesters of 2015 reached 1126 million, as seen in the next graphic:

Graphic 16. Evolution of the migrant remittances per trimester and origen 2007 - 2015 (Millions of dollars)



Source: BCE
Elaboratio: BCE

2.3 Measures applied in Ecuador

By the year of 2009, after a deficit in the balance payment, the government of the Replic of Ecuador decides to adopt measures of safeguards to products coming from outside with the objective to forewarn the liquicity of the system, with motives of excess in imports. Balance the payment balance was necessary controlling the excess imports since there are more products entering the country, which resulted in a lot of money leaving the country. Another primeordial objective was to protect the local markets which were impaired by imported

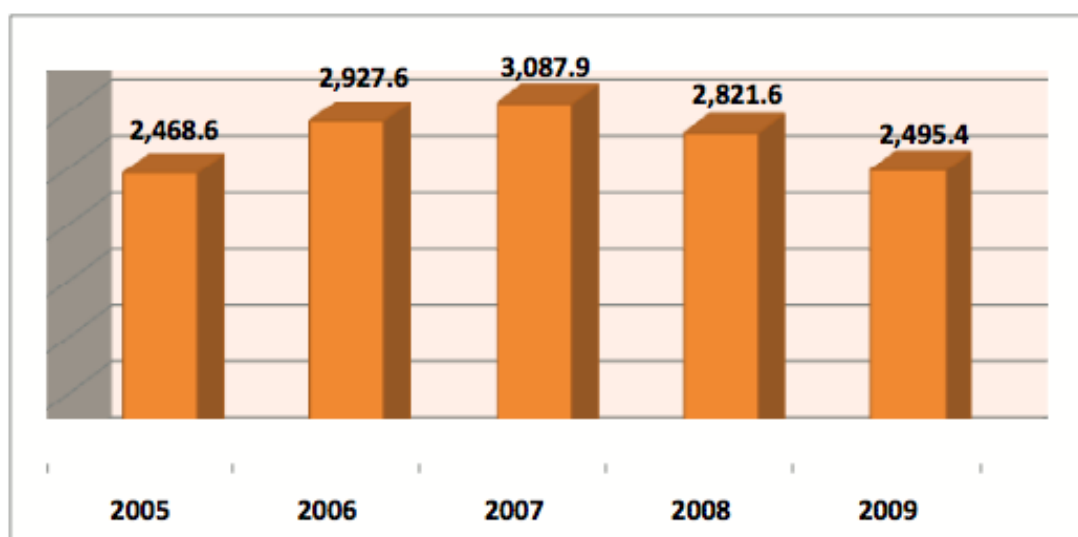
products. However, this crisis could have caused a lot of trouble to the countries trading with Ecuador since they faced an application of tariff surcharges where in the short or long run, they could be affected and both national and international were concerned about the effects they would cause.

Along with the fact that there was a drop-in oil prices and a lower number of remittances.

The remittances are an important part in the payment balance of Ecuador, a country which heavily depends on this category, and when the normal amounts are lowered it obviously affects the economy of the country as happened in the analysed period.

As can be observed, the year 2009 had a turnover of 2.495,4 million USD dollars for migrant remittances that entered Ecuador, which compared with the previous year it represents a decrease of 326.2 million dollars. However, the year with the greatest income of migrant remittances was in 2007 with 308,9 million dollars.

Figure 17. Migrant Remittances Received in the Years 2005-2009 USD in Million Dollars



Source: Banco Central Del Ecuador

Elaborated by: BCE

Therefore, according to information from the Central Bank of Ecuador, this decrease that remittances show in the year of 2009 was produced by a global

financial crisis that ends up affecting directly the two major countries of remittance flows; The United States and Spain. That is why due to a "decline in economic activity in Spain" a negative impact on employment was originated. Due to this situation, Ecuadorians living in those two countries were suddenly unemployed and therefore with no money to send to their mother country and therefore resulting in the decrease of remittances. "The unemployment rate decreased by 6.7%, which meant a net reduction of 1.27 million jobs. " Nonetheless, another key point to understand is the way this situation influenced to the collapse of the economy in 2009, it all started when the US economy suffered a decline with "a contraction of GDP of 2.4% in 2009 being the largest decline recorded since 1946". (Central Bank of Ecuador, 2010)

This crisis affected our main exporting market, the United States, and therefore this situation generated at some point the Ecuadorian crisis which affected trade activity, purchasing power, it caused unemployment and instability for Ecuadorians residing in the United States, the remittances decreased, causing an obvious drop in foreign exchange earnings to the country.

In other words, "the factors that affects heavily on the country's foreign exchange earnings will directly affect the level of liquidity in the economy, thus impacting on levels of production, employment and welfare. Reason why it is important to have policy instruments to cope with any liquidity problems. "(Central Bank of Ecuador, 2010)

In this matter, the implementation of an Ecuadorian barrier tariff as a mechanism was necessary and urgent, the President Rafael Correa who represents the country since 2007, tried to find a rational solution that could protect the welfare and living conditions of all Ecuadorians, and based on Art. 283 of the Constitution of the Republic of Ecuador where it mentions and explains that the economic system aims to "ensure the production and reproduction of material and immaterial conditions that enable good living" and in the same way taking into account Art. 284 which clearly states that the Ecuadorian economic policy must "maintain economic stability, defined as the maximum sustainable level of production and employment over time."

On the other hand, Ecuador had a Council of Foreign Trade and Investment (COMEXI) which considered the Law on Foreign Trade and Investment (LEXI). Its objective was to issue provisions in Ecuador for the implementation of public policy on trade issues. In terms of public policy such as tariffs, it was managed by the President of the Republic reason why the COMEXI was responsible for issuing "previous opinions" so that the presidents could analyze and issue rates of customs taxes applied to imported goods or products. (Committee of Foreign Trade, 2015)

According to COMEXI (2015), 604 resolutions were issued throughout its existence, the last dates on December 15 of year 2010, within these resolutions we can observe the application of the tariff surcharge on imported products such as the case of the footwear sector.

Thus the Council of Foreign Trade and Investment (COMEXI) through Resolution No. 466 "knew about the report made by the Central Bank of Ecuador (BCE), which establishes the existence of a severe deficit in the balance payments of Ecuador in the year of 2009, a situation that requires an immediate reduction of imports in the amount of Two Thousand one hundred Sixty Nine Million US Dollars 00/100 (US \$ 2.169'000.000,00) in order to balance the external sector and maintain the necessary balance to maintain macroeconomic sufficient and sustainable growth of the Ecuadorian economy. "(Ministry Coordinator of Production, Employment and Competitiveness, 12)

That is why the first Article of the just mentioned Resolution states that the barrier tariff would be temporarily applied for imports coming from all countries including those with which Ecuador has "existing trade agreements which recognize tariff preferences". However, something to note is that such tariff would not be applied to imports that come to Ecuador in terms of donations, household goods, goods for the use of the disabled, among others.

The terms referred to in resolution 466 were as follows:

- a) Apply an Ad-Valorem additional to the national barrier tariff for imports of goods listed in Annex I of this Resolution;
- b) Apply a specific additional surcharge to the national tariff for imports of goods listed in Annex II of this resolution;
- c) Establish fees, limiting the value of imports of goods under the terms contained in Annex III of this Resolution;

In regards to the footwear industry, this type of product applies to the terms of numeral b mentioned above, where according to Annex II of the Resolution No. (466), footwear is being analyzed under chapter 64 of the nomenclature NANDINA. Their subheadings began with a specific tariff surcharge, additional to the fee of the barrier tariff, as shown below:

N°	Medida	NANDINA	Descripción	Recargo Arancelario US \$/par
----	--------	---------	-------------	-------------------------------

SECTOR CALZADO

1	Arancel específico 10 US \$ por par	6401100000	- Calzado con puntera metálica de protección	10
2	Arancel específico 10 US \$ por par	6401920000	- - Que cubran el tobillo sin cubrir la rodilla	10
3	Arancel específico 10 US \$ por par	6401990000	- - Los demás	10
4	Arancel específico 10 US \$ por par	6402120000	- - Calzado de esquí y calzado para la práctica de «snowboard» (tabla para nieve)	10
5	Arancel específico 10 US \$ por par	6402190000	- - Los demás	10
6	Arancel específico 10 US \$ por par	6402200000	- Calzado con la parte superior de tiras o bridas fijas a la suela por tetones (espigas)	10
7	Arancel específico 10 US \$ por par	6402910000	- - Que cubran el tobillo	10
8	Arancel específico 10 US \$ por par	6402991000	- - - Con puntera metálica de protección	10
9	Arancel específico 10 US \$ por par	6402999000	- - - Los demás	10
10	Arancel específico 10 US \$ por par	6403120000	- - Calzado de esquí y calzado para la práctica de «snowboard» (tabla para nieve)	10
11	Arancel específico 10 US \$ por par	6403190000	- - Los demás	10
12	Arancel específico 10 US \$ por par	6403200000	- Calzado con suela de cuero natural y parte superior de tiras de cuero natural que pasan por el empeine y rodean el dedo gordo	10
13	Arancel específico 10 US \$ por par	6403400000	- Los demás calzados, con puntera metálica de protección	10
14	Arancel específico 10 US \$ por par	6403510000	- - Que cubran el tobillo	10
15	Arancel específico 10 US \$ por par	6403590000	- - Los demás	10
16	Arancel específico 10 US \$ por par	6403911000	- - - Calzado con palmilla o plataforma de madera, sin plantillas ni puntera metálica de protección	10
17	Arancel específico 10 US \$ por par	6403919000	- - - Los demás	10
18	Arancel específico 10 US \$ por par	6403991000	- - - Calzado con palmilla o plataforma de madera, sin plantillas ni puntera metálica de protección	10
19	Arancel específico 10 US \$ por par	6403999000	- - - Los demás	10
20	Arancel específico 10 US \$ por par	6404111000	- - - Calzado de deporte	10
21	Arancel específico 10 US \$ por par	6404112000	- - - Calzado de tenis, baloncesto, gimnasia, entrenamiento y calzados similares	10
22	Arancel específico 10 US \$ por par	6404190000	- - Los demás	10
23	Arancel específico 10 US \$ por par	6404200000	- Calzado con suela de cuero natural o regenerado	10
24	Arancel específico 10 US \$ por par	6405100000	- Con la parte superior de cuero natural o regenerado	10
25	Arancel específico 10 US \$ por par	6405200000	- Con la parte superior de materia textil	10
26	Arancel específico 10 US \$ por par	6405900000	- Los demás	10

Source: Comexi

Elaborated by: Comexi

This chart indicates that footwear industry had to pay an specific tariff surcharge of 10 dollars per pair plus the ad-valorem of 30% for all imports entering the Ecuadorian territory.

However, on December 22, 2009 it was established by resolution 533 of COMEXI to set a 10% reduction of tariff surcharges starting January 23, 2010. As for footwear, this new resolution indicated that now the specific tariff changed to 9 dollars per pair, applying the reduction of the 10%.

By february 2010, the footwear industry goes through a change of tariff where the Council of Foreign Trade and Investment under Resolution 550 of COMEXI approves the recommendation of the Technical Report No. 024 which mentions to establish a new charge to imported footwear, it was called mixed tariff. This meant that there would be a tariff of 10% of ad valorem and a specific tariff of 6 dollars per pair. Such mixed tariff should come into effect from the first of June 2010, also the tariff for footwear uppers would be added, as shown in the last two subheadings in the following chart.

Shoe uppers, materials forming the outside of the shoe, which are part of the sole and the upper cover dorsal surface of the foot. (INEN, 2013)

Resolution No. 550

Cod. Nandina	ARIAN	Descripción	Un. Fis.	% Arancel advalorem	% Arancel específico	Nota explicativa
64011000	.00	- Calzado con puntera metálica de protección	1 par	10%	USD 6/POR PAR	
64019200	.00	-- Que cubran el tobillo sin cubrir la rodilla	1 par	10%	USD 6/POR PAR	
64019900	.00	-- Los demás	1 par	10%	USD 6/POR PAR	
64021200	.00	-- Calzado de esquí y calzado para la práctica de <<snowboard>> (tabla para nieve)	1 par	10%	USD 6/POR PAR	
64021900	.00	-- Los demás	1 par	10%	USD 6/POR PAR	
64022000	.00	- Calzado con la parte superior de tiras o bridas fijas a la suela por tetones(espigas)	1 par	10%	USD 6/POR PAR	
64029100	.00	-- Que cubran el tobillo	1 par	10%	USD 6/POR PAR	
64029910	.00	--- Con puntera metálica de protección	1 par	10%	USD 6/POR PAR	
64029990	.00	--- Los demás	1 par	10%	USD 6/POR PAR	
64031200	.00	-- Calzado de esquí y calzado para la práctica de <<snowboard>> (tabla para nieve)	1 par	10%	USD 6/POR PAR	
64031900	.00	-- Los demás	1 par	10%	USD 6/POR PAR	
64032000	.00	- Calzado con suela de cuero natural y parte superior de tiras de cuero natural que pasan por el empeine y rodean el dedo gordo	1 par	10%	USD 6/POR PAR	
64034000	.00	- Los demás calzados, con puntera metálica de protección	1 par	10%	USD 6/POR PAR	
64035100	.00	-- Que cubran el tobillo	1 par	10%	USD 6/POR PAR	
64035900	.00	-- Los demás	1 par	10%	USD 6/POR PAR	
64039110	.00	--- Calzado con palmilla o plataforma de madera, sin plantillas ni puntera metálica de protección	1 par	10%	USD 6/POR PAR	
64039190	.00	--- Los demás	1 par	10%	USD 6/POR PAR	
64039910	.00	--- Calzado con palmilla o plataforma de madera, sin plantillas ni puntera metálica de protección	1 par	10%	USD 6/POR PAR	
64039990	.00	--- Los demás	1 par	10%	USD 6/POR PAR	

64041110	.00	--- Calzado de deporte	1 par	10%	USD 6/POR PAR	
64041120	.00	--- Calzado de tenis, baloncesto, gimnasia, entrenamiento y calzado similares	1 par	10%	USD 6/POR PAR	
64041900	.00	-- Los demás	1 par	10%	USD 6/POR PAR	
64042000	.00	- Calzado con suela de cuero natural o regenerado	1 par	10%	USD 6/POR PAR	
64051000	.00	- Con la parte superior de cuero natural o regenerado	1 par	10%	USD 6/POR PAR	
64052000	.00	- Con la parte superior de materia textil	1 par	10%	USD 6/POR PAR	
64059000	.00	- Los demás	1 par	10%	USD 6/POR PAR	
64061000	.00	- Partes superiores de calzado y sus partes, excepto los contrafuertes y punteras duras	1 par	10%	USD 6/POR PAR	Solamente: Para las partes superiores de calzado "capelladas"
64069990	.00	--- Los demás	1 par	10%	USD 6/POR PAR	

Source: COMEX
Elaborated by: Comex

Se realiza posteriormente otra modificación por medio de la resolución No.578 del COMEX indicando que las últimas dos subpartidas que pertenecen a capelladas de calzado mismas que contaban con un Arancel Advalorem de 10% y de un Arancel Específico de 6\$ por par ahora cambiaría a un arancel mixto con Arancel Advalorem de 10% pero con un Arancel Específico de 3 Dólares por par, como se puede observar en la siguiente tabla.

Consequently, another modification is then carried out by the resolution No.578 of COMEX indicating that the last two tariff subheadings for shoe-uppers which had an ad-valorem tariff of 10% and a specific tariff of 6 dollars per pair would then change to a mixed tariff with an ad valorem tariff of 10% but with a specific tariff of 3 dollars per pair, as shown in the following chart.

The Initial Mixed Tariff – Resolution No. 550:

Código NANDINA	Subp. ARIAN	Designación de la Mercancía	Un. Fis.	% Arancel ad-valorem	Arancel Específico	Nota Explicativa
6406.10.00	.00	- Partes superiores de calzado y sus partes, excepto los contrafuertes y punteras duras	1 par	10%	USD 6 POR PAR	Solamente: Para las partes superiores de calzado "capelladas"
6406.99.90	.00	--- Los demás	1 par	10%	USD 6 POR PAR	

Changes made in Resolution No. 578:

Código NANDINA	Subp. ARIAN	Designación de la Mercancía	Un. Fis.	% Arancel ad-valorem	Arancel Específico	Observación
6406.10.00	.00	- Partes superiores de calzado y sus partes, excepto los contrafuertes y punteras duras	u	10%	USD 3 POR UNIDAD	
6406.99.90	.00	--- Los demás	u	15%		Solamente: para contrafuertes, punteras, cambrillón, polainas y taloneras
6406.99.90	.00	--- Los demás	u	10%	USD 3 POR UNIDAD	

Source: COMEX

Elaborated by: COMEX

The only variation within subheading 6406.99.90 is 5% more in its Ad Valorem, because a 15% would be applied only in case of toecap, midsole, shoe leggings, heels.

Finally, Resolution No. 580 decreed the elimination of barrier tariffs that were applied to all products established in Annex I of Resolution No. 466 of COMEXI and their modifications and thus "nullifying the barrier tariff due to the Balance Payment".

Consequently, by the year of 2013 the Government of the Republic of Ecuador decides to implement a policy to footwear through the Ecuadorian Technical Regulation RTE INEN 080 for domestically manufactured and also imported shoes which deals with "Labelling of footwear", this in order to guarantee their quality,

stimulate their production levels and to provide greater security and consumer welfare.

This Regulation of RTE INEN 080 in Article 1, states as "MANDATORY" the "Labeling of FOOTWEAR" and thus establish the requirements thereof to "prevent practices that may mislead or deceive to customers."

Moreover, the Ecuadorian Institute of Standardization (INEN) provides the following definitions:

Tag: Is any label, tag, inscription, mark, image or other descriptive or graphic material that has been written, printed, stencilled, marked, debossed or intaglio or attached to the product, in order to publicize certain specific characteristics of the product.

Labeled: Laying process or placing the label on the product.

Permanent label: label that is sewn, adhered or affixed to a product by a process of thermal fixing or any other method that ensures the permanence of the information in the product, at least until the product has been sold to its final consumer. It contains the minimum information required in this regulation.

Nonpermanent label: label affixed to a product as hangtags, or other similar ways where this can be removed from the product or it can be placed in its packaging.

This regulation, according to Article No. 1 numeral 2, it would be applied to footwear products that are within the headings and subheadings of Chapter 64 of the NANDINA according to the National ImportsTariff, being the following:

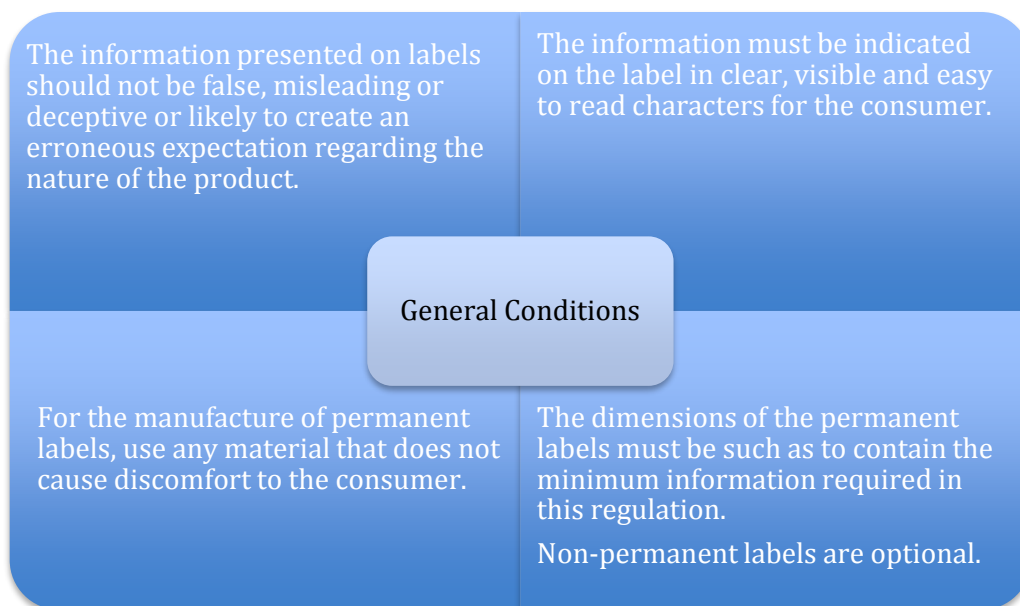
Chart 4. Heading and subheading that applies Labelling

CLASIFICACIÓN	DESCRIPCIÓN
Capítulo 64	Calzado, polainas y artículos análogos; partes de estos artículos
64.01	Calzado impermeable con suela y parte superior de caucho o plástico, cuya parte superior no se haya unido a la suela por costura o por medio de remaches, clavos, tornillos, espigas o dispositivos similares, ni se haya formado con diferentes partes unidas de la misma manera.
64.02	Los demás calzados con suela y parte superior de caucho o plástico.
64.03	Calzado con suela de caucho, plástico, cuero natural o regenerado y parte superior de cuero natural.
64.04	Calzado con suela de caucho, plástico, cuero natural o regenerado y parte superior de materia textil.
64.05	Los demás calzados.

Source: Reglamento técnico ecuatoriano rte inen 080 “etiquetado de calzado”
(INEN, 2013)

Elaborated by: The Author

This regulation has certain general conditions to be met as:



On the other hand, the requirements for footwear labeling, under Article No.1, paragraph 5 of Regulation RTE INEN 080, are as follows:

- Permanent Tags
- The information should be expressed in Spanish language, subject to further information in other languages are present.
- Prior to the import or marketing of domestic products must be placed in a permanent label visible, or easily accessible to the consumer site.
- The permanent label must contain the following minimum information:
 - The manufacture of the four parts of footwear: top (uppers), lining, insole and sole.
 - Company name, Tax identification (RUC) of the national manufacturer or importer.
 - Country of origin.
- The minimum information required in paragraph 5.1.3 of these resolutions can be placed in one or more permanent labels.
- Materials used in making the four component parts of the footwear. Must be expressed by using texts, pictographs or both, those listed in Annex A to this technical regulation.
- The permanent label should indicate the material constituting at least 80% as measured on the top surface (uppers), lining and insole; and at least 80% of

the volume of the shoe sole. If no material represents at least 80%, the information of the two main materials would be considered that make up each part of the shoe, placing first its predominant material.

- In the case of the top (uppers), the determination of the materials is made regardless of accessories or reinforcements such as piping, ankle protectors, ornaments, buckles, tabs, eyelet stays or similar devices.
- Company name Tax identification (RUC) the manufacturer or importer
- For imported products, it should indicate its company name, Tax identification (RUC) of the importer.
- The inclusion of trademarks and logos do not replace the identification of the manufacturer or importer.
- Country of origin. It can be used the following expressions: "Made in ...", "Manufactured in ...", "Elaborated in ..." and other similar expressions.
- The size must be legible and visible, and place it on the product where the manufacturer deems appropriate.
- For footwear with no lining, it must be labeled "unlined".
- When the shoe design or the material doesn't allow printing, sewing, stenciling, print or record the information required in paragraph 5.1.3, should incorporate a label firmly attached to the shoe.
- The terms skin or leather and its derivatives should not be used to name the materials that do not come from animal skin.
- The permanent label should be presented in the two units that make up the pair of shoes.

Finally, Article 1 Section 9 mentions that both the Ministry of Industry and Productivity and the Institutions from the State are responsible for the "control and supervision" in terms of compliance with the above requirements.

2.3.1 Footwear Productive Sector in Gualaceo

2.3.1.1 Brief Productive History

The city of Gualaceo also known as "Garden of Azuay" is a canton part of the province of Azuay, which is located in "the eastern downtown area, in the basin of the Santa Barbara River." (M.I. Municipality of Gualaceo, 2015)

This canton is distinguished and visited for its great natural, cultural and artisan wealth, recognized regionally and nationally for its "artisanal production of wool fabrics, dyed Ikat, basket weaving, embroidery, footwear and wood. "(Orellana Galarza, 2012)

As for the footwear sector, this is an artisan activity done in this canton and known for it, calling the attention of its citizens and tourists who go to different stores for their varied designs and affordable prices.

This product and its production dates from long ago, "according to reports, the first handmade shoe activities are given between 1885-1890, a period in which the process for tanning leather and soles, raw material, was rudimentary. Subsequently was improved and chamois leather was obtained by using the knife and skin. "(M.I. Municipality of Gualaceo, 2015)

On the other hand, the footwear company of Gualaceo Litargmode (2016) states "there are footwear business that have began with this activity since 1972 to date."

Therefore, "the Azuay canton of Gualaceo marks the main step of the footwear industry in southern Ecuador." (El Comercio, 2013) As mentioned in the newspaper El Tiempo, "In Azuay, when thinking of shoes is to immediately think of Gualaceo where 80 percent of its population is engaged in developing and marketing footwear "(Diario El Tiempo, 2013)

On the other hand, Alfonso Iñiguez (1999) in his study about "Marketing Footwear in Gualaceo" indicates that the people of Gualaceo at first did not know the craft of footwear; people used sandals, "sandals with rubber tires that were no longer in use. " (Iñiguez, Marketing Footwear in Gualaceo, 1999)

By the 1830s, many Creoles descendants of Spaniards who lived at that time in Ecuador "initiated and promoted handicraft production" in both Gualaceo and Chordeleg. Thus, it is said that "the first craft demonstrations of footwear were produced in the years of 1885-1890". According to Mr. Iñiguez, this knowledge, which became the main occupation for the inhabitants of this city was brought from

Spain and their descendants however, the process was fairly rudimentary. (Iñiguez, History of Footwear in Gualaceo, 2001) Although, after the influx of trade in the year of 1890, the products were transported from Gualaceo to other near cities such as "Paute, Azogues, Sigsig, Cuenca, by mule" and footwear starts to be highly demanded and exchanged by coins and sometimes by an "exchange with products like beans, corn, or farmyard animals", therefore, sandals were replaced by handmade shoes. This situation motivated the citizens of Gualaceo whom realized that they could start manufacturing footwear to support their families, even though at first the profits were low but in return it was an art that would pass to their kids and so on therefore, become over time a family business.

By the year of 1949, "90% of the citizens of Gualaceo" were part of this footwear activity and business of shoemaking where "the price of a pair of shoes at that time was around 20, 30, and 40 sucres" and the payment to the artisan who made the footwear was of three, five, six sucres but it could reach an average per week of 30 to 80 sucres ".

This certainly motivated producers, progress was reflected in money, in the amount of production and sales, which were gradually increasing, and as a result Gualaceo was growing in economically term. Then Gualaceo's footwear began to be distributed to different cities of the country, traders from other cities came as well to buy directly from Gualaceo and therefore sell this shoes in their stores. (Iñiguez, Marketing Footwear in Gualaceo, 1999)

"Then the decision of some entrepreneurs to start small workshops gradually created jobs and established some craft workshops, by the early 90's footwear production increased and by the end of this decade some economic, politics factors and the indiscriminate entry of foreign products invaded the national market forcing a decline in national production and therefore a serious crisis in the sector. "(Orellana Galarza, 2012, p. 1)

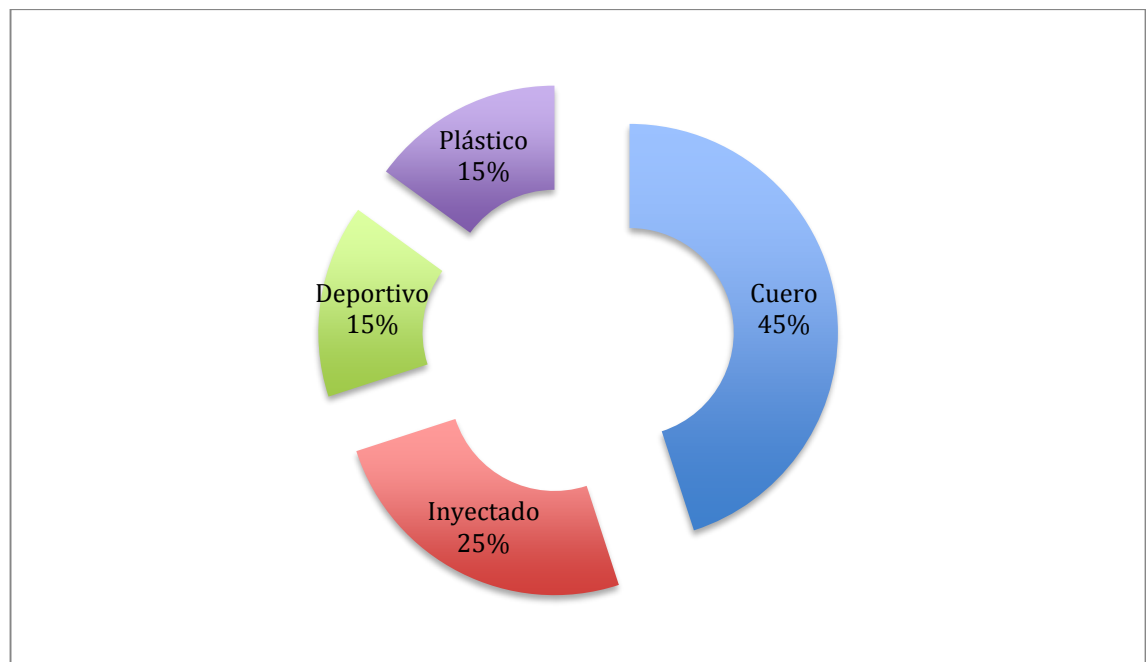
However, after the study through interviews and visits to various businesses of footwear in Gualaceo, it was verified that currently the Citizens of Gualaceo are engaged in the production, sale, and the distribution of such product. Nevertheless,

the traditional shoemaking methods has been maintained but in smaller scales compared to when it started. Now is a priority to manufacture shoes through machinery due to the less time consumption to finish a pair of shoes, in other words with machinery companies can make more pairs of shoes in less time.

2.3.1.2 Product Characteristics

In general, according to the National Chamber of Footwear (CALTU) Ecuador has the following types of footwear produced in the country:

Graphic 18. Types of footwear produced in Ecuador



Source: Caltu

Elaboration: the author

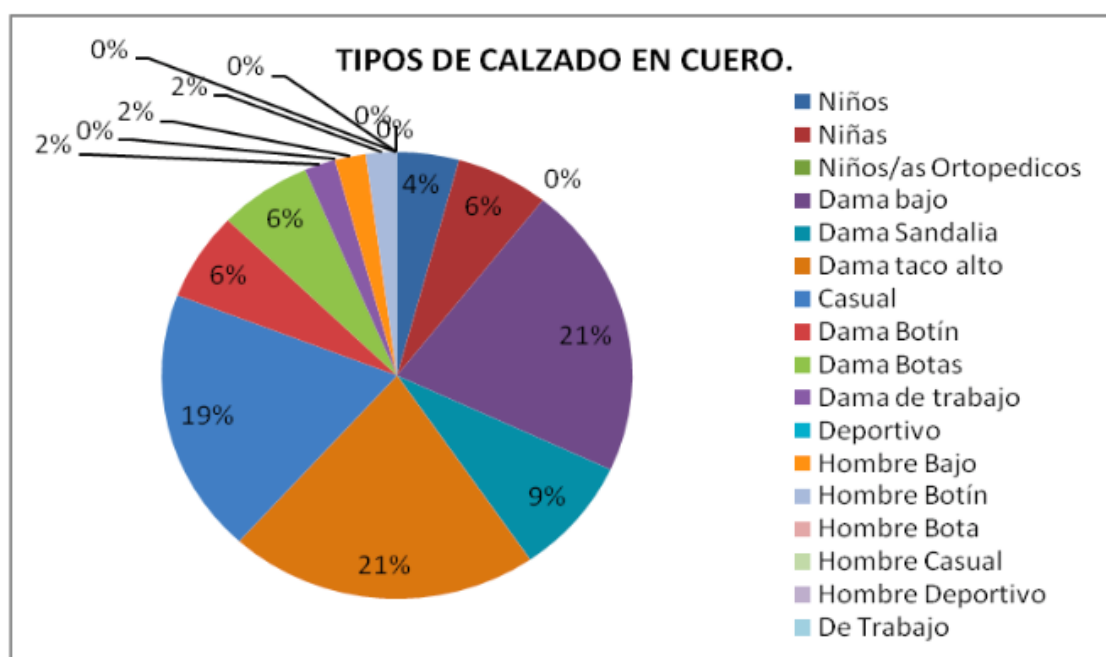
Looking at this graph, we can observe that the mayor percentage is made up of leather footwear with 45%, being the most produced in our country, with on the other hand sport and plastic footwear represents the least amount with 15%. This information was confirmed by the footwear merchants of Gualaceo. They tell us that the leather shoe is the one that is produced most, mostly focused at the feminine market, with 85%, because of its reception it results to be very profitable both in production as in sales. In the same way, they let us know that diversifying

the models, they are up to par with the international market, they follow trends and seasons, and the quality improves over time, with them trying to deliver a good product to their customers, as well as trying to innovate the technique and offer affordable prices to create loyalty from their customers.

The ministry of Industry and Productivity (2014) mentions, “the provinces of Azuay and Tungurahua are characterized by its industrial and artisanal potential regarding elaboration and treatment of leather and footwear.” Looking at Azuay, the region of Gualaceo has artisanal producers and producers that have been innovating its technology buying machines to fabricate the shoes, dedicating themselves that way to offer a varied product catering to kids, older people, men and women, being casual or formal with a plethora of materials. Nevertheless, “the production in the sector has evolved more towards the elaboration and commercialization of leather footwear. (Seproyco, 2010)

Among the principal tipos of leather footwear in Gualaceo we can find the following:

Graphic 19. Types of leather footwear



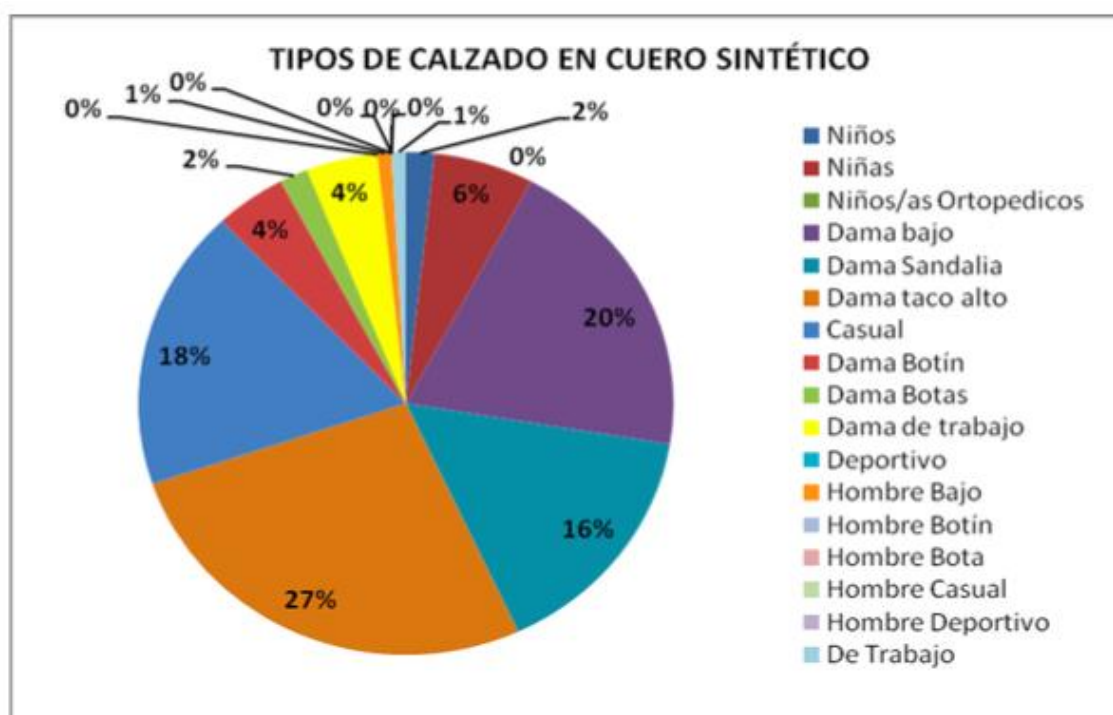
Source: Estudio de la Producción de Calzado, Edgar Orellana. (2012)

Elaborated by: Edgar Orellana Galarza

As shown in the graphic, the most produced type of footwear is women's footwear with high heels, and low shoes for women, both leading with 21%, followed by casual footwear with 19%.

There's also synthetic leather, which is an alternative for the footwear producer and also an additional option for the client.

Graphic 20. Tipos de Calzado en Cuero Sintético Types of footwear using synthetic leather



Source: Estudio de la Producción de Calzado, Edgar Orellana. (2012)

Elaboration: Edgar Orellana Galarza

This graphic shows that the type of footwear is women's footwear with a high heels representing 27% of production, followed by the low heeled women's footwear with 20%.

That's why we can definitely say based on the information, that the most produced footwear in women's high heels, be it in synthetic or natural leather.

As mentioned by Mr. Abraham Cabrera, CEO of the company Deteico, despite Gualaceo having other alternatives, the majority of producers prefer to produce women's footwear, like he decided to do so with his business. The main reason being that women consume more footwear, be it for work, events or simply for casual occasions, and they always come back for more. (Cabrera, Becerra, 2016)

This represents a bigger source of income for the merchant and for the región, which identifies the most profitable market and tries to give a plus to its product.

Lastly, for the year 2015, after a study realized in the region Gualaceo, it's mentioned that "The production of footwear, which in the last few years and because its high demand has generated its quality and pleasing esthetic has passed from an ancestral artisanal production to a flourishing industry which are a means of income for a big part of the habitants of the region, which work in this industry, a commercial center in these parts." (M. I. Municipalidad de Gualaceo & López Rodríguez, 2015)

2.3.1.3 Characteristics of the Productive Process.

"In recent times, the process of making footwear that was done manually before has been replaced by machines and in spite of the diminish of this activity it's still one of the big pillars of the Gualaceo industry." (M.I.Municipalidad de Gualaceo, 2015). That's how the mayor's office in Gualaceo describes the footwear industry in Gualaceo. Nevertheless, it's a lot more complicated and that's why an investigation was made about the characteristics and has been investigated through magazines and visits to the companies to know their reality.

First, it can be said that the production of artisanal footwear in Gualaceo was an entire logistics process, since they couldn't count on a lot of money, nor facilities that we have today. The artisans had to invent them themselves to be able to produce.

"The production process started out in a rudimentary way, preparing the raw materials. The first artisans had small workshops where they cut the skins, using a

big stone called “noque” on which they left the cut leather to be processed. (Iñiguez, Historia del Calzado en Gualaceo, 2001, p. 1)

This is the first procedure explained by Mr. Alfonso Iñiguez to start making footwear. He explains that the leather had to be made softer with whale oil, which wasn't easy to come by. They had to wait a couple of hours before using an agate which usually was a big bone to make the leather more flexible to use in the shoe. An interesting fact is that this skin, that was cured and ready to make a shoe, was usually only found in dark yellow color due to the lack of other leather paint in Gualaceo. Nonetheless the artisans didn't leave it at that, and invented a special paint to make this leather black. Using “banana- and orange peel, a little piece of iron, all mixed in with pulcre”. This mixture was left to ferment for a couple of hours, resulted in what is called “Tinta Mishqui”. After some time, they tried to make the leather look like suede to change things up a bit and diversify the products a little bit, along with adding some extra value. They started using rabbit leather and deer leather among others too.

When they got the raw material, they started the production process which was manual. They started by cutting the leather using a model which had only one size, afterwards they started sewing using a special thread from the penca plant called “pita”.

Then they started assembling the shoe to make sure the sole fitted. This procedure is called “plantado”. When making a high heeled shoe, they used a heel made from sole, mounted with nails. To finish the shoe, they “polished the suede” with a special polish called “escorfiná”, they also used a special vile and starch. The decoration that was added to the shoe was according to each artisan's ability but there were a few tendencies like the “dotted chain” and “simple dotted” which consisted of putting a White color along a black line which gave them a sophisticated look. The templates as mentioned before were only one size, but after some time, they started using different size ones to better fit the needs of the customers. They also started using rubber soles along with contactglue which helped the artisans a lot since they only used to use nails to join the different parts. However, the pads were handmade from wood, and mr Leoncio Sarmiento is

known as one of the first and best making these. (Iñiguez, Historia del Calzado en Gualaceo, 2001, pp. 1,2,3)

Without a doubt the artisan from that time had the ability in his hands to make footwear and took its time to finish each and every one of them with a lot of dedication and effort. According to Alfonso Iñiguez, in 1920, the price for a pair of shoes was 1,25 Sucres and in 1950, price was at 4,50 Sucres. This rise in price was the motivation for a lot of artisans who put a lot of effort into inventing new ways to give an extra value, make their shoes better, and better their art.

“It’s important to mention the names of the first leatherworkers, who also discovered the Paint and learned how to soften the skins, artisans like Braulio Peralta, Victor Iñiguez, Fermín Guillén, Luis Antonio Jara, Antonio Galarza, Humberto Peralta, Luis Vázquez, Eloy Moreno, Abraham Galarza. As the first artisans who kept the tradition of shoemaking: Alfredo Berzosa, Darío Iñiguez, Nazario López, Luis María Lopez, Juan Coellar, entre otros” (Iñiguez, Historia del Calzado en Gualaceo, 2001, p. 3) These names are very important to the footwear business in Gualaceo since without them we wouldn’t have been famous for our footwear. Thanks to them it became popular, it developed and production was stimulated, which has its influence up until today. Thanks to them, the production of shoes exists in this region and is recognized nationally. Their great work which was done without the use of tools is to be admired, along with their merchant spirit.

On the other hand, as mentioned from the beginning, these artisan’s ways have been substituted by machines, especially with the appearance of companies with bigger workshops since they are able to produce a lot more quantity in less time, which is why they benefit from having newer machines in their workshops to optimize time. Now, as indicated by mr Abraham Cabrera, owner of the Company Calzado Deteico in Gualaceo, the process is as follows. We first need a good template, since that’s the most important part in the production of shoes. After the design stage, we need good heels a good form and lastly the leather or synthetic leather. Put in other words, “The production process starts with the preparation of the raw material (the leather) which is processed in the leathershops, and production plants, where lastly it is commercialized in the shopping centers.

Nevertheless, manually producing shoes avoided production errors and if errors were made in the production process, they could be identified in time and be corrected before they were publicly sold.

In case of the company Litargmode which is dedicated to the fabrication and commercialization of women shoes in Gualaceo, Engineer Lino Anguisaca tells us that there is an equal part manual and mechanic work, that it's a combination of teamwork since there are a couple of things that cannot be automated, like for examples sewing, which is an important part done by very capable people in the fabrication process and which adds a lot of value to the product

Litargmode tells us they work in a 4 to 1 ratio: there's 1 machine for every 4 people that work in making a pair of shoes.

They import synthetic leather from Brasil and the natural leather is bought in Ambato. Percentage wise, 90% of raw material is imported and 10% is national. They make their own soles and heels, but with imported raw materials. It's also interesting that they buy from the manufacturer, and not from some kind of salesperson like most other companies do. As engineer Anguisaca tells us, buying from middleman takes more time, and it's possible that they can't supply the volume needed, that's why he prefers to import directly from the producers. They produce around 1000 pair of shoes daily where each pair takes approximately 20 minutes to make.

The company Deteico imports materials like the soles, different colors of synthetic leather, heels and fibers. 100% of the synthetic leather is imported, the soles and heels are 90% imported and 100% of the traditional black, blue and beige leather is imported from Colombia, Spain and Brasil

In the Company Fassiono, mrs. Berta Huaraca starts the design process looking at what is fashionable, her brand also focuses on the innovation for each collection and its colors being always trendy. Using different materials like leather, plastic, mixes of fabric obtained in Colombia, Brasil on an international level and national material is obtained in Quito, Guayaquil and Ambato. 90% of her raw material is

imported. Fassioni produces in collections, and takes around 3 months since they produce in big numbers. Bridal shoes however take around 2 weeks from when they start designing to deliver the pair.

The company Bellise, managed by the owner mr. Marcelo León, tells us that the fact that he can't find raw material in Ecuador, makes the final product more expensive. He offers shoes made from natural and synthetic leather for women. Most of his clients come back for the quality but that the price of the shoes makes them unavailable for some people. His company has a small workshop and is more dedicated to the commercialization than to its fabrication since the last implies more difficulties.

According to the investigation done in the región of Gualaceo, there exists a weekly production in the following way, by pair:

Graphic 5. Weekly production of footwear in Gualaceo in 2016

EMPRESA	PRODUCCION SEMANAL 2016 DE CALZADO
Litargmode	1000 diarios
Deteico	300 diarios
Belissa	100
Fassioni	200

Source: Entrevista a Principales Empresas de Gualaceo

Elaboration: the author

On the other hand, “according to the information gathered in Calty, it’s estimated that the average shoe consumption is 2,5 pairs of shoes per habitant per year. Which would bring the annual demand of shoes to 32.250.00 pairs.” (SEPROYCO, 2010) This doesn’t discredit the artisanal part which complements the productive processes, but it does give an added value, along with efficiency, time and volume.

To give an idea on a global level “The total world production of footwear was around 4,4 billion pairs of shoes in 1977. That number grew to 11 billion pairs in

1999 and more than 16 billion pairs in 2007.” (Seproyco, 2010, p.21)

In general, the most important materials and raw materials for production of leather and fabric footwear is indicated in the following graph:

Materiales para Materias Primas de Calzado Cuero

Suela	Cant	%	Plantilla	Cant	%	Forro	Cant	%	Capellada	Horma	Cant	%
Caucho	30	75	Sintético	13	36	Cuero	20	56	Cuero	Plástico	30	83
PVC	4	10	Cuero	9	25	Sintético	12	33		Madera	6	17
TR	3	7.5	Eva	3	8	Textil	4	11			36	100
Nitrilo,	1	2.5	Aglomerado	8	22		36	100				
Fibra	1	2.5	Tela Toalla	1	3							
Cuero	1	2.5	Celulosa	1	3							
	40	100	Zalpa	1	3							
				36	100							

Materiales para Materias Primas de Calzado Textil

Suela	Cant	%	Plantilla	Cant	%	Forro	Cant	%	Capellada	Horma	Cant	%
Sintético	3	43	Sintético	7	88	Sintético	8	73	Sintético	Plástico	9	90
Caucho	2	29	Reciclado	1	13	Textil	2	18		Iny Metálica	1	10
PVC	2	29		8	100	PVC	1	9			10	100
	7	100					11	100				

Source: Seproyco, 2010

Elaboration: Seproyco, 2010

We can conclude the type of material and the quantity needed for a footwear producer, showing how this implies a significant investment to be able to maintain himself in the market. All the interviewed expressed their inconformity with the lack of support to be able to import raw material in an easier way, and definitely with the lack of available machines not only to for the fabrication of footwear, but also to produce and work with the raw material, to be able to offer the shoes cheaper.

2.3.1.4 Market Characteristics

The footwear industry is ample and diverse, which is accentuated by the development in “design, variety and specialization.” Its technical processes advance more and more to reach a better fabrication. Also important to mention that the production of leather and skin reaches 350 thousand per year. This is important information since this material is destined almost exclusively for the fabrication of “the internal footwear, leathers goods and confection market” while the rest is destined for export (Proeuador, 2015)

On the other hand, the cities that have chosen footwear as a source of economic activity and that have been able to live off of it, being as producers, distributors, or merchants, has been in this way:

“The chain of footwear, on a countrywide level, is made up of around 1271 artisan workshops and localized industries in the cities of Ambato 34.38%, Quito 22.5%, Guayaquil 17.5%, Cuenca 15%, Gualaceo 5%, Latacunga and Chordeleg 2.5% and Guaranda 0.63%.” (SEPROYCO, 2010, p. 29)

The ministry of Industries and Productivity (MIPRO) emphasizes that both Azuay and Tungurahua are provinces with a great “industrial and artisan potential” referring to the production of footwear. That’s why the current government of Economist Rafael Correa has focused itself in promoting this sector, publishing the regulation “The etiquette of footwear” RTE INEN 080 previously analyzed, regulations that stimulate and demand higher quality standards for products on the national market.” (MIPRO, 2014)

This productive sector has seen noticeable government support with the implementation of commercial and productive politics like the tariff charges applied to imported footwear with the purpose of protecting the national production. This has been put into place thanks to a clearly dishonest competition in these products, especially Chinese footwear that entered the country and was commercialized with really low prices, which made the Ecuadorian footwear industry unable to compete, since they were around 3 times as expensive. “The import cost of a Chinese pair of shoes is 1,22 USD, which is an incredible low price that made it impossible to

maintain the national shoe production.” (FLASCO – MIPRO, 2010)

On the other hand, according to the information provided by the National Chamber of Footwear, as we can see in the next graph, Ecuadorian footwear production during 2008, when a worldwide and national crisis started, is very low, but after the application of the safeguard in 2009 and 2010, we can see a significant improvement with an increase between these 2 years of 5.25 million pairs produced, and in the years preceding 2014, we had an approximate yearly increase of 2.5 million pairs produced.

Graphic. 21. National Footwear Production



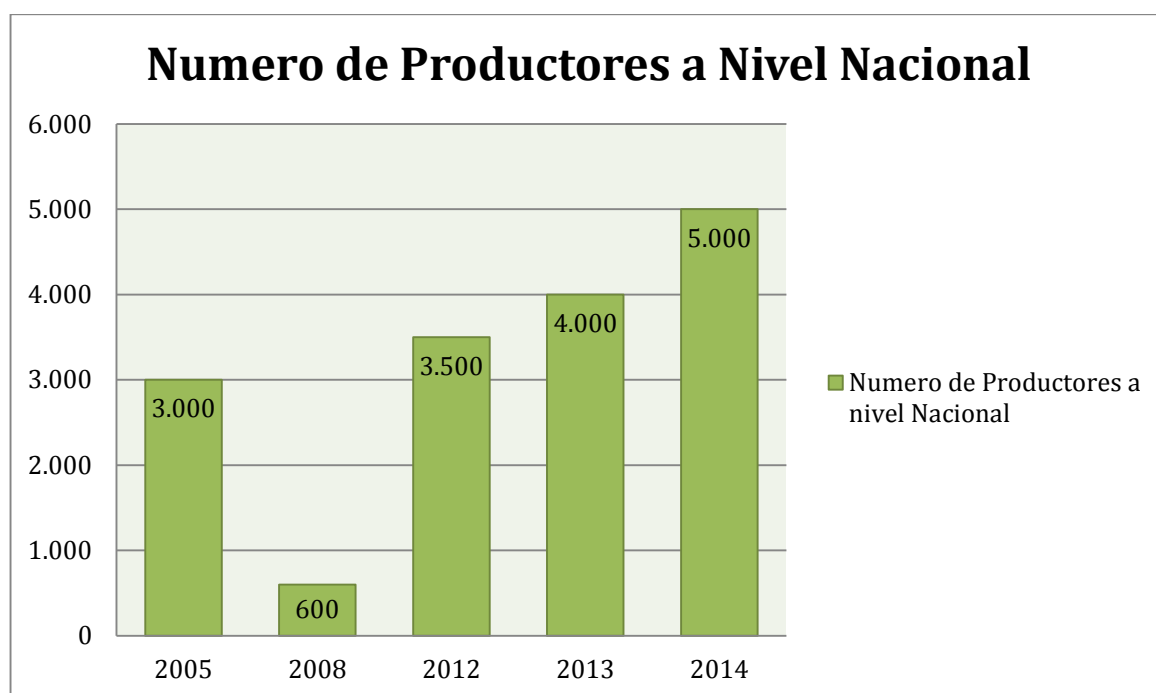
Source: Cámara Nacional de Calzado

Elaboration: Author

This indicates that starting 2010 the production was more stable on a national level and obviously, Gualaceo, which falls in that area.

Using the number of footwear producers, we can form a global vision since this information was taken at a national level. According to the graph, it's impressive how in 3 years (from 2005 until 2008) the numbers of producers went from 3000 to 600. These are 2400 producers that left the footwear sector.

Graphic 22. Numbers of producers on a national level



Source: Cámara Nacional de Calzado

Elaborated by: The author

In the same way, according to the Ministry of Industries and Productivity (MIPRO) the productive transformation that took place thanks to Eco. Ramiro González, has promoted the development of small and medium companies, along with artisans on a national level. They also organized a Footwear Competition in 2014 in Gualaceo. (Ministry of Industries and Productivity, 2014) This kind of initiatives transform into an incentive for this sector and its producers since it inspires trust in the industry so they will keep producing, reaching in this case an ampler market and transforming it in a prosperous activity.

On the other hand, there are important factors in this industry, like the technology and the qualification of trained personnel, where the companies in this sector have been counting on both. This is reflected in a 15% increase in production and sales. “(According to MPCPEC).” (M. I. Municipalidad de Gualaceo & López Rodriguez, 2015, p. 178)

Regarding the aforementioned about counting on “trained personnel” Ing. Lino Anguisaca, CEO of the company “Litargmode” in Gualaceo arguments that the available labor force in the area is very skilled, learns fast and without a doubt can be as good as the ones internationally, although they need some more training in new techniques, among others. The training should be provided by international companies like the ones in Brasil since they are regarded as the best in footwear production, and can teach our people about different ways to finish the shoe and fashion. They can also be trained by national institutions but only if they have sufficient knowledge.

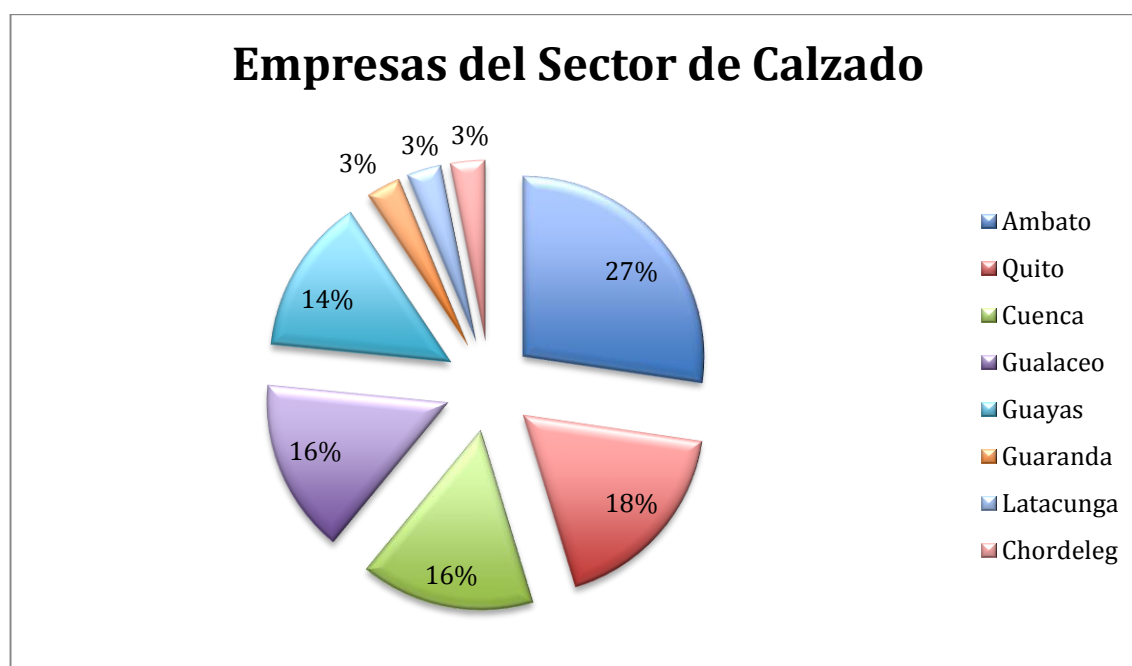
In spite of its ups and downs, the footwear sector has always been very active, starting its production based on a family business concept. After that, the workshops started being sources of income and incremented the production of footwear. By the end of the 90’s “economical and political factors, along with the indiscriminating imports of foreign products invaded the national market, forcing the market to lower production and into crisis” (M. I. Municipalidad de Gualaceo & López Rodriguez, 2015)

Nevertheless, according to the study by Lopez Rodriguez and the township of Gualaceo (2015), it wasn’t over. The study indicates that in the beginning of the 2000’s the sector had to overcome some difficulties thanks to a shortage in raw material, both in quantity and quality. Together with the delay in technology and a dishonest competition from China, however the next year “there were 1271 workshop-companies in the country”.

Before, in the year 2008, the Ecuadorian footwear sector suffered so bad that “every 8 out of 10 pairs sold were imported”. (FLACSO - MIPRO , 2010)

In 2009, the government decided to apply import barriers to protect in some way its comercial balance, and in the year 2010, 1770 workshops-companies were registered. “Which counts for a 4% increase, therefore classifying as a dynamic sector.” This increase in workshops generated an augmentation in this product and in 2008, 80.000 were working in the sector and in 2009 that number rose to 100.000, which means an increase of 20.000 employees in 1 year. (M. I. Municipalidad de Gualaceo & López Rodriguez, 2015).

Graphic 23. Companies in the footwear sector



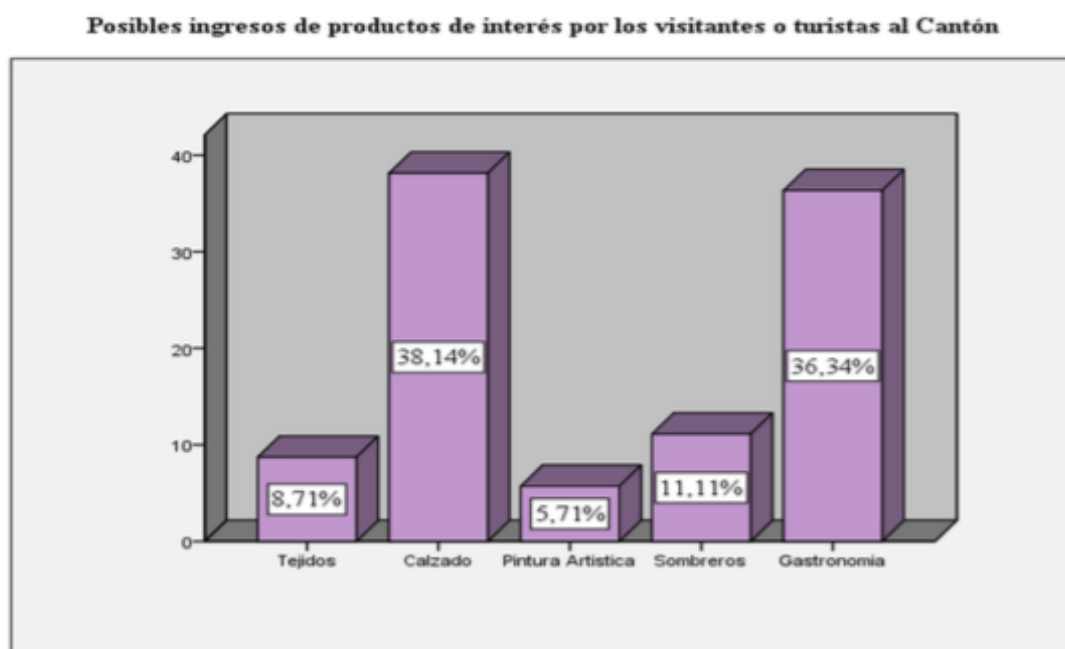
Source: Consultoría Eje Económico de Gualaceo

Elaborated by: The Author

As can be observed, the city with the biggest number of footwear companies, is Ambato, also well known for its production of certain raw materials that are being used to fabricate footwear. This has been a key point of Ambato's growth in this industry. The region Gualaceo, has a 16% percentage.

The big acceptance of shoes in Gualaceo can be observed in the next graphic, since from a few services and products in the región, tourists prefer the next ones:

Graphic 24. Possible interesting products for the visitors or tourists to the Gualaceo region.



Source: (M. I. Municipalidad de Gualaceo & López Rodríguez, 2015)

Elaboration: (M. I. Municipalidad de Gualaceo & López Rodríguez, 2015)

The graphic clearly indicates that people that come to Gualaceo, primarily do so for its shoes (38,14%) and for its culinary treats (36,34%) which is a difference of 1,8% showing that footwear is a prosperous sector which is still in a developing and perfecting state.

The footwear stores in Gualaceo are mainly located in the streets Davila Chica in the historic centre, really close to the central park, but they can also be found just outside the center.

2.3.1.5 FODA Analysis of the footwear sector in Gualaceo

Being able to identify the strong points, opportunities and weaknesses along with threats to the footwear sector in Gualaceo, means analyzing, talking to people that are in the sector, and visiting the places where these activities are being done. We can mention that this sector is mainly a family business passing along knowledge

from generation to generation. However as in most sectors, when it grows, sometimes some problems and negative aspects show up, sometimes good things show up too, according to the case.

Strong points of the footwear sector in Gualaceo

According to the study realized we have the next points:

- Able workers
- Innovators
- Passed along knowledge through generations
- Footwear with added value thanks to its handmade details
- Provides source of employment
- Productive sector with its own identity
- There are enough workers for its production
- Well equipped workshops to produce
- Merchants with an extensive market knowledge
- Fixed providers
- Good customer service.

Opportunities

Regarding the opportunities in the footwear sector in Gualaceo we have the next points:

- Activity that helps the Ecuadorian economy
- Implementation of the tariff barriers
- Improves the regional economy
- Dynamic economy
- Bank system credits Local projects for investors
- Government promotion of the Gualaceo shoes
- Government projects to expand the market internationally
- National and international courses provided by the entities

Weaknesses of the footwear sector in Gualaceo

Regarding the weaknesses in the footwear sector in Gualaceo we can mention the following points:

- Limited amount of raw material, both nationally and internationally
- Lack of quality
- non-ergonomic design
- There is no study of the Ecuadorian molds
- Very expensive raw materials
- Lack of machinery and technology
- There's no real study of the sector
- Lack of competitiveness
- Small workshops
- No vision towards the international market
- Lack of training of producers
- Lack of promotion of the shoes
- Finished product is expensive to export
- Lack of union between producers, merchants and distributors of footwear to reach positive effects

Threats to the footwear sector in Gualaceo

- Not enough government support
- Competition with lower prices
- Entry of a lot of foreign competition
- Short term application of tariff barriers
- Imported products are better and cheaper
- Lack of investment for a better growth of the sector
- Economic crisis in Ecuador
- Decrease in the purchase power

After everything mentioned, we can perceive the preoccupation of the producers for a few details, which with the passing of time can affect the footwear sector with factors like false products, unloyal competition, lack of raw material etc. where it's essential to promote a strengthening of the productive side, with constant training, competitions motivating the designers and artisans, to a better quality control, and especially that the producers are given the opportunity to produce the raw materials themselves with a smaller percentage of import taxes on special machinery. All of these changes will take time developing, but it's without a doubt a necessary thing to be done if the product is to be 100% Ecuadorian one day.

On the other hand, we can analyze from a different perspective, since this activity counts on a strong capacity to generate a dynamic market in Gualaceo. This is all thanks to the purchase power possessed in Gualaceo, being customers who buy the shoes, money that can be invested in bettering and expanding the workshops so they can produce more, and offer a bigger variety to its clients who will keep buying if they're happy with the shoes.

An example of this is the vision of Mr Marcelo León, who after 5 years in the markets, has been through highs and lows in the sector. He's the owner of the shoestore Belissa, with quality products, offering leather and synthetic womenshoes. He does mention that the raw materials make the products more expensive since they depend on the other countries and when tariff barriers are applied, these get more expensive, which makes the end product more expensive. Another weakness is the lack of control from the competent authorities at the borders because false products are being brought in all the time, with lower prices but also lower quality.

On the other hand, Berta Huaraca, owner of Fassiono, who commercialize and produce footwear, mentions that there has to be awareness, make it so the clients are loyal by providing a high quality, which still lacks. The fact that a more expensive product can't be exported because the price would be a lot higher than the shoes the other country produces itself, makes it so most producers show no interest in the international market. Another interesting fact is that there was a period in time, where she preferred buying the shoes in another country, and selling

it here, which at the time was a lot cheaper than producing them herself. This happened during 7 years, until the market stabilized and she could defend the national product. She considers this a threat because when they stop producing, competition stops to exist, and national production lowers a lot.

Mr Abraham Cabrera, owner of the store Deteico, mentions that there has to be a school dedicated to constant training of artisans and producers, to be able to obtain new and different knowledge. A lack of credits is also true; the government should study the sector a lot more thoroughly to be able to take relevant decisions on the matter. According to him, a threat is the fact that they have to import raw materials or they have to abide by the prices the other sellers apply when they buy in Ecuador. He also mentions the fact that his daughter is a shoe designer, is an advantage and gives more value to his product since she specialized here studies internationally and has a different perspective than most Ecuadorian designers.

The case of Ing. Lino Anguisaca, owner of the company Litarmode, indicates that the people that work in the productive part of the footwear sector, have to be trained accordingly, since that's a big weakness of a couple of companies. All of these companies have the same knowledge and there is no competition between them, the only way to change this is to train these people applying different production methods and visions, so they can share this with the rest of the artisans. He also mentions that the company has to give the client what they ask, in numbers, designs and time. If they don't do so, the client will simply buy from another merchant and change markets fleeing from the market in Gualaceo. Another important point is that the producers have to be aware of their products, because if they just suggest a very nice shoe, but in the end it's impossible to come by the raw materials needed, it's the same as doing nothing and just becomes lost time. That's why the people that design the shoes have to be there with the people selling, submersed in the world of shoemaking, aware of what's available and how much time it takes to produce.

CHAPTER 3

EFFECTS IN THE FOOTWEAR SECTOR IN THE CANTON OF GUALACEO GENERATED BY THE BARRIER TARIFFS APPLIED IN YEAR 2009

Likewise, this situation usually generates effects for the domestic market reason why a specific type of study has been done in order to determine the effects on the footwear industry of Gualaceo using various sources through a qualitative research. The main technique used was interviews as it seeks to show what is happening or what exactly happened and specially prove meaningful experiences which were faced by artisans, producers, small and medium enterprises in different areas such as price changes, quantity of production, stock, hand labor, among others.

"Qualitative research studies the structural and situational contexts, trying to identify the profound nature of reality, its system of relationships, its dynamic structure. Qualitative research has several techniques for data collection, such as: Observation, interview, document review and document analysis, case study, and others "(Dominguez, 2007)

The main objective of this research focuses on the footwear sector specifically in the canton of Gualaceo and in order to obtain as much information regarding this activity I have resorted to the M.I. Gualaceo Municipality thorough an approval by the Mayor of this city, because thanks to some projects that have been implemented by the municipality I could extract information necessary to carry out this research, which was not available online.

On the other hand, it was necessary to contact and talk to a consulting company, in this case MKTConsulting, they have an extensive experience in the field of footwear in the area of Gualaceo, with a great knowledge about the reality of the years I have done the research and likewise they could help identify the people who would be a key to provide me with meaningful information thorough an interview. This has been done because there is a lack of formal and statistical data regarding this sector.

I have also proceeded to accomplish the observation technique within the city of Gualaceo to identify traders, artisans, producers, workshops; and consequently, have all authorizations ready to proceed with the interviews.

Mr. Alfonso Iñiguez, a craftsman in Gualaceo who has been directly involved since the beginning of this activity in Gualaceo, a person with extensive knowledge of this area both in history, processes handcrafting and traders in the area, has been of big help providing useful information that would be not found anywhere else. I have also interviewed managers and owners of footwear stores located in Gualaceo, visited several workshops where they manufacture this product, all with a long history in the footwear sector in this county.

All the collected information, research, and fieldwork has served to identify the effects caused by the safeguard taxes in the footwear industry of Gualaceo, that can be find below.

3.1 Effects on Producers - Traders – Importers in Gualaceo

Interviews were made for this part of the research to merchants and craftsmen, to some managers and owners of important footwear companies in Gualaceo that were in the market during the years that are being analyzed in this study such as Belissa, Deteico shops, Fassioni, Mr. Edgar Orellana Galarza, Mr. Alfonso Iñiguez, among others. Their facilities were also visited like the one considered to be the biggest one in the city, the company Litargmode, and the workshop of Mr. Abraham Cabrera was visited as well.

Prior to the implementation of the mixed tariff applied to footwear products of Chapter 64, the producers in Ecuador faced a hard time of foreign competition and they all expected a prompt solution from the government. However, after a safeguard tax was applied in Ecuador, a period of confusio and massive production happened, since the imported products were gradually disappearing from the market, and so then domestic producers begin to produce a larger quantity of footwear and traders begin to saturate their shops with domestic footwear as consumers began to demand national products.

People were not prepared for this unexpected boom and neither were the producers who didn't have enough stock at that time to satisfy all consumers and their quality could not reach international standards as imported footwear did.

On the other hand, because of this increasing consumption on footwear in Gualaceo many people that were not in the footwear business started to be part of this sector and started either way selling or producing shoes, as footwear became highly profitable and an activity that had to be exploited.

This period was well received by business footwear people from Gualaceo and where even people from this city who lived in foreign countries came back hoping to devote themselves to this activity.

Although producers and traders say the safeguard was certainly a beneficial fact because it allowed to boost the local economy, it also caused a market saturation and a failure on quality control as everything happened so fast, reason was they could not provide to the customer a high standard shoe as they were used to.

For example, when importing footwear from the port of Santos -Brazil which is one of the countries that exports a considerable amount of shoes to Ecuador, and taking into account the information and freight rates offered by the international shipping company "Provexcar", we have the following:

Cost	13 Dollars
Insurance	7 Dollars
Freight	20 Dollars
CIF	40 Dollars

As additional data we have that the estimated shipping time is 21 days.

Therefore, if a value of \$ 43 is considered per pair of shoes, adding the 10% tariff plus the 6 dollars, the final value would be of 50 dollars.

Cost	43 Dollars
Specific Tariff	10%
Ad-Valorem	6 Dollars
Final Cost	50 Dollars

On the other hand, if the value of the shoes is 100 dollars plus the same tariffs that were applied in the previous example, there is a final value of 116 dollars.

Cost	100 Dollars
Specific Tariff	10%
Ad-Valorem	6 Dollars
Final Value	116 Dollars

While the national footwear had an average price between 20 and 25 dollars, resulting a very comfortable cost for the consumers who looked at the prices more than their quality. Moreover, because the footwear was homemade, its manufacturing time and Showcasing did not take more than 5 days compared to 21 days that it took in case of an international freight from Brazil to Ecuador.

This shows that when applying tariffs on a relatively low CIF cost it is considered to be more beneficial in terms of trade policy, since the lower the cost the highest the final prices of footwear result, and thus it can be achieved the purpose of this tariff, to protect the domestic industry through a protectionist measure. However, if the importers of footwear bring the shoes with a high CIF value from Brazil they would have to pay less tariff taxes however, Ecuadorians prefer low costs like the Ecuadorian footwear that provides the consumer cheaper prices and variety in models like the ones from Gualaceo.

While the national footwear could be found at a price of around \$ 20 to \$ 25, this retail price was very comfortable for consumers who more than quality they preferred variety and good prices where imported footwear was completely the opposite.

Another aspect was the increase in confidence in the economic system and the purchasing power of the time. This led suppliers to trust the market and therefore granted loans to footwear producers with the certainty that they will recover their portfolio in a short time. This showed that they were satisfied with the government's decision to support domestic production and to encourage the purchase of national products.

In the case of importers who brought footwear to Gualaceo, decided to change their business as they noticed that it would be more convenient to stop importing and instead invest on equipment and machinery for footwear activity and begin a national business. However, the issue of this situation was the fact that people who started a new footwear business in Gualaceo, they did it without any previous knowledge or training neither with enough infrastructure to develop such activity which required all of this.

Eventhough the tax was applied to footwear imported to Ecuador in the year of 2009, it was not meant to be long lasting. This boom period of positivism and investment was declining after the completion of the safeguard, there was a lot of producers and marketers left without jobs after the Government started to admit again international footwear to the country. Those who bought equipment and machinery in 2009 and 2010 had to sell to recoup the investment, also people who bought or rented spaces to sell footwear had to leave as they did not receive the same profit after they had to face competition again. On the other hand, importers returned to their initial business and tried to regain their market.

Nevertheless, this did not happen to everyone but it did with the majority, those who remained in the footwear business after the completion of the safeguard were those who had a family business, those who were already established in the footwear

industry before the crisis occurred, those who had enough experience on this area experienced, and who did not invest all their money.

3.2 Effects on Footwear Production

There was a negative aspect that could be seen right after the safeguard was applied, this aspect was the increase in prices and the shortages in imported materials required for the manufacture of footwear.

Raw material is fundamental for the production of footwear due to this, producers were severely affected because many products had to be imported such as nails, shoe templates, shoe insoles, synthetic material, heels, fibers, shoe trees, etc. The synthetic leather was imported 100%, in terms of platforms and heels 90% of them were imported and 10% of them were made in Ecuador. Leathers with traditional colors (beige, blue, black, white) they could be found easily in Ecuador but if the producer wanted a special color to give an added value to the final product it had to be imported either from Colombia, Spain or Brazil who had a all types of colors and combinations.





In general terms, it could be considered that in order to produce footwear in Gualaceo 90% of raw material had to be imported and that 10% was made in Ecuador (Quito, Ambato, Guayaquil). Furthermore, the producers were concerned about not having enough domestic inputs, complained about a lack of support by the government to facilitate entry of machinery with preferential costs for companies to devote to manufacture raw material and provide it to the ecuadorian market. Due to this big issue, national companies had to sell their products at higher costs because using imported raw materials in order to produce footwear made the final product much more expensive than if producers had the materials in Ecuador.

The prices of the materials for footwear production increased after the safeguarding tax applied in the year of 2009. On the other hand, the production process took longer as the amount of imports of the materials decreased or were delayed in arriving to the country. Due to this reason, certain footwear producers made the decision to import on their own instead of waiting for national providers, such is the case of the company Litargmode, many more took this as a motivation to stop depending on other providers and start doing the process themselves, this way they saved money, time and brought products they wanted according to their shoe models.

Meanwhile due to the delay in the acquisition of raw material and consequently the shortage production of footwear, the demand of this product was in serious problem as it could not be fully covered.

Despite the above, the level of production of footwear grew after the safeguard tax was applied by an 80% compared to 2008.

Table 6. Weekly production of footwear in the year of 2009 in the city of Gualaceo

Company	Weekly Production in the year of 2009 - Gualaceo
Litargmode	2240
Deteico	750
Belissa	250
Fassioni	1000

Fuente: Entrevistas

Elaboración: La Autora

Tabla 7. Weekly Production of footwear in the year of 2016 in Gualaceo.

Company	Weekly Production in the year of 2009 - Gualaceo
Litargmode	1000
Deteico	300
Belissa	100
Fassioni	200

Fuente: Entrevistas

Elaboración: La Autora

According to table 6 and 7, during the year of the safeguard taxation which was on 2009, the production level in footwear was high because the demand level grew as well. However, 2009 compared to year 2016 dropped to almost 50%.

During this “golden age” of 2009, there was a positive general footwear production in Gualaceo of not less than 300,000 pairs per month, involving about 4000 to 5000 workers; which lasted until early 2011. Consequently, after the government let imported products back into the country, the consumers preferred to purchase imported footwear due to their good quality and different models, and therefore stopped consuming national shoes.

3.3 Effects on Prices for the End User

There are some important points to mention about the effects on the price of footwear products, which affect directly to the consumer. One point is that by relying on raw material mostly imported for production, their final product becomes more expensive due to high cost of production. This had a negative effect on clients who felt that even though the prices raised at some point, they didn't have more options than national footwear, reason why national footwear purchase did raise compared to the years where people did have imported options.

As some merchants and producers mentioned, like the company in Gualaceo Deteico, the prices in those years for footwear in the city of Gualaceo were given according to what the nearest business had, at first because when the safeguard tax was applied no body knew how to handle the prices, there was no entity that would control or regulate them so they just took a guess and the ones that produced had to put the prices according to their cost plus their profit. Evidently, there was a gap in the price, since there was no international competition, just the shoes that all most all shops had pretty much the same type, so marketers simply placed prices according to what the other stores were selling.



The type of material used to make footwear was considered at the moment of establishing the prices for the customers, for example leather shoes were considered much more expensive, although this depended on whether the leather material was imported or domestic. Generally, footwear could be found at a range of 20 to 25 US dollars. These costs were lower before the implementation of safeguard tax.

The owner of the shoewear company Belissa located in Gualaceo, mentions that during the taxes period over the year of 2009 the business people in this city could not sell the footwear with high costs, and so their profit margin was very low. However, during the years of 2009, 2010 and beginning of 2011 even though their costs were low, they sold really high quantity of shoes which at some point compensated this issue.



Picture of Belissa Shoe Store.

On the other hand, the company Litargmode produces soles and heels for their shoemaking, reason why their final prices represent a considerable value of profit and in terms of raw material they import directly from the manufacturer which gives a plus compared to the competition because by importing they save lots of extra costs and can give to the client a more comfortable price.

However, in general the fact of producing with imported material ends up raising the final prices of footwear and in case that someone would like to export this finished product it would be even more expensive. This point is tricky for all traders who want to open their market outside but it represents a very difficult reality since they will not be competitive to whatever country they want to export due to the high costs and quality.

3.4 Effects On Sales

Gualaceo had a great advantage in this regard after the application of the safeguard tax on footwear. Since this city is well known for the making and sale of this product, offering trending models at reasonable prices, reason why people from different cities came to Gualaceo to buy their shoes.

Sales clearly improved after the measure taken by the Ecuadorian government, the national product began to gain popularity and sales volumes increased. According to the Ministry of Industry and Productivity, national footwear industry generated sales of US \$ 151.455,000 in 2011 and generated 100,000 jobs nationwide.

This period was positive for those engaged in this activity, the demand from traders was high which was good for those who produced footwear. Retailers could sell at least 20 pairs a day in their shop, which was very good compared to this year of 2016 where the sales dropped by an 80% sales due to the current crisis and the low purchasing power.

During this great period since 2009, everyone wanted to buy shoes, retailers where impressed on how much they could sell, between \$ 40.000 per month, and producers wehre extremely happy since all their products were not made in vain; in other words, what was produced was sold.



Consequently, a great demand on footwear implies a big production as well, but this did not happen at all in the beginning. To be able to meet high levels of demand, businesses were obliged to increase their workforce, deploy more machinery and have a much wider area there is a proper process of production especially in the days of holiday where orders grew even more, such as Mother's Day, christmas, New year, etc.

Footwear producers were not prepared for a situation like the one just mentioned, it was something that could not be predicted and it just happened in the year of 2009, so they had to face it the best way possible.

Similarly, following the completion of the tariff measure, the sales of footwear in the Gualaceo were down gradually as the international footwear market returned to Ecuador. This medium-term measurement resulted in large losses for entrepreneurs who invested most of their money in machinery, infrastructure.

The manager of Litargmode expresses the nonconformity of such measures saying that it was implemented for a too short period of time, time that would not improve the footwear sector. The laws are not deeply analyzed before applying them and sooner or later ends up affecting Ecuadorians and their business, implemented was too short to improve the footwear sector.

3.5 Effect on Employment

One of the objectives of the Ecuadorian government to adopt tariff restrictions in 2009 was to encourage domestic production and thus strengthen the different sectors thereby generating a major source of employment. This certainly was fulfilled because the high demand of shoe industry in Gualaceo generated a greater need for sufficient staff that can produce high volumes of footwear required during this period.

For reference, during the year 2001 there were around 1.271 workshops-companies in Ecuador while in 2010 it increased to 1.770, which meant "... a growth of 4% a year, getting known as a dynamic sector." consequently, "the increase in business has also meant an absorption of more labor, in 2008 (before measurement was applied) the sector have employed around 80.000 people and by 2009 it came up to 100.000." (MI Municipality of Gualaceo & Lopez Rodriguez, 2015, p. 177)

In regards to Gualaceo, its workshops increased as well their employees, increasing its staff by up to 50%. At that time, everyone wanted to buy shoes however, the sale of machinery for footwear production were scarce as most business people were trying to acquire them in order to increase their production volumes, entrepreneurs invested a big amount of money in this industry. This was a cause for this sector to become stronger and generate employment.



This picture shows how big the workshop is and how many materials they need for footwear production. This is the case of Litargmode in Gualaceo.



This picture indicates people need the machinery in order to make footwear, since there are processes that can't be done by hand.

However, one of the producers mentions that he had to hire 30 people overnight for his workshop after the implementation of the tariff measure in order to cover all requests. Although this has been positive for those who had a job and for the owners of the stores, there was a deficiency in quality control since the personnel

that was hired were not all experts in shoemaking. One important point is the fact that training people for shoe making properly takes about two years until they can be able to do something completely perfect, but until this could happen the safeguarding was already eliminated. This was not analyzed before the government applied the taxes.

In other words, according to the company Litargmode, applying the taxes was a big mistake, they mention that they even had manufacturing defects and mistakes they had to urgently employ staff that was not sufficiently qualified to make footwear and so they ended up damaging the products resulting in big costs for the company, the final product was of bad quality with a poorly finished detail. He argues that it was not enough time, that a measure like the one the government applied should be for at least 2 years in order to have a positive effect on the industry and therefore the country, to train properly and maybe send the employees abroad to learn from other perspectives and come back and apply it.



The footwear manufacturing activity is exposed to fierce competition from abroad, so when trade barriers ended, footwear from other countries began to enter to Ecuador again, and national industries started having selling issues as well. Facing competition again from other countries with extremely cheap shoes was difficult,

and a situation that continues until now, since is very complicated to compete with them in price, quality, innovation, finished, and added value.

On the other hand, labor ended up being excessive after the elimination of tariff barriers, the production decreased too, people were running out of work. Such is the case of Fassioni, where the owner mentions that during the good times of 2009 she did increase its staff doubling it, but when the trade barrier ended she had to dismiss her employees since the sales decreased and there was not enough money to keep paying such a big staff.

In a long-term it turned out to be an unsustainable situation after a drop-in sale, with a reduction of 40% in production of footwear after the trade barriers ended and there was an entry of imports of footwear again.

CONCLUSIONS

During the year of 2008, the Ecuadorian economy felt the effects of a global crisis that triggered a slowdown in economic growth in the country thus inducing a number of tariff reforms to imported products. This crisis was caused largely to the high dependence of Ecuador to the price of a barrel of oil and its variations in the market in which the export value dropped from 97 american dollars per barrel in early 2008 to 54 american dollars per barrel in the span of seven months until February 2009. At the same time, Ecuador had and continues to have close ties with the amount of remittances from migrants, where during 2008 its marked decline, plus a large amount of imports that entered Ecuador causing a deficit in the trade balance.

After a negative trade balance in Ecuador and considering that trade is the engine for a positive development and economic growth of a country, the Ecuadorian government with the aim of boosting the domestic industry, to increase the consumption of products produced in Ecuador, and to protect liquidity of the system; tariff measures were applied in the year of 2009 to imported products, including footwear which has been analyzed in this study.

The use of trade barriers to imported products creates several positive but also negative impacts depending on the subject to be analyzed, it also generates at the beginning speculation in their citizens and to the entrepreneurs living in Ecuador as well as several changes in retail prices and in thinking twice before making a decision to invest in this country immediately.

One of the reasons to apply trade barriers to the footwear sector was due to the high volumes of imports of this product from the Republic of China and because of their really low costs, the Ecuadorian shoes could not compete with them. This situation severely affected the domestic footwear industry considering that this sector generates around 39,000 jobs and was about to disappear.

The implementation of tariff barriers to footwear had the expected effects, there was an annual variation of imports of -32.4% within the category of textiles and footwear, in other words there was a decrease on foreign footwear products where in the year of 2008 the imports went from 751 million dollars while for the next year it went down to 508 million. In general, imports decreased specially from China which was the main competition for finished footwear and there was also a decrease from the four major suppliers of footwear like Brazil, Panama, Peru and Colombia. It is important to mention in terms of money values, that around 90,727 dollars were saved as imports stopped coming to the country and as a result the main production areas in Ecuador such as Ambato, Quito, Cuenca and Gualaceo witnessed the positive effects and how protected their industry was after applying the tariffs.

In the analyzed case of the footwear in Gualaceo, shoemaking is an outstanding productive branch to consolidate the domestic market, so the effects of the tariffs measures applied in 2009 are considered to be positive, considering that was a boom time with higher sales, higher orders, the employment rate increased from 2008 to 2009 by 50%, there was a good investment rate and a great motivation going on in the city to make business and improve their economic situation.

The footwear producers from Gualaceo had a great growth, where stores had all types of shoes available to sale, the consumer could choose lots of shoes at affordable prices, artisans had employment, and those who imported before the tariff barriers were applied stopped bringing footwear from abroad and instead they began to focus on domestic production. Even people who migrated to other countries had the opportunity to return during the boom period hoping to do business and stay in Ecuador. Those well-known Family companies of Gualaceo who have been in business for many years were still teaching their children shoemaking in order to continue this great tradition, producing Jobs, and boosting the economy.

Even though the barrier tariffs caused some positive effect on several aspects, there was also a deficiency in meeting consumer needs in terms of good finished product,

an important aspect considering that imported products came with an excellent finished footwear and could not be considered as a competition in those terms, reason why people started to consume footwear from to enter again footwear from Brazil and Colombia once the barrier tariffs were gone and imports came again to Ecuador. Consumers preferred to buy a good high quality shoe when available, and others preferred a cheap footwear like the one from the Republic of China. However, tariff measures had its highest point while the tariff taxes lasted, and it appears that the lifetime of one year of this tariffs were too short in order to fix all error of the economic system and to stabilize the sector in a long term because once the barriers were finished, the production fell 40%. Despite this, and all the ups and downs that has crossed the footwear sector in Gualaceo, the market is trying to make this striking characteristic product of the area to continue to captivate consumers and remain in the city for much longer.

Following the above, it can be deduced that the footwear sector in Gualaceo faced a time of prosperity which they were not sufficiently prepared, they had to go through a time of high demand which initially could not meet immediately, they didn't count with enough staff and equipment for prompt attention to the market. Artisans and producers yet have many expectations to get this product to be recognized not only nationally but also internationally. However, they are aware that they need more government support in terms of the possibility of producing with premium materials made in Ecuador and optimize resources, therefore a greater support to let imported machinery for shoemaking at lower prices maybe through bilateral strategic partnership, and also a major training programs for shoemakers to produce better quality footwear. Finally, when applying a commercial policy to a specific sector, this must be highly analyzed from different perspectives and make previous studies before the application of barriers, thereof to thereby be able to prevent negative impacts, and determine the correct time for this tariffs to be maintained in the system in order to improve the industry and the country.

RECOMENDATIONS

Even though the barrier tariffs were designed to protect domestic industry and promote domestic consumption, I believe that these trade policy measures should be deeply analyzed by the government before their application. In the case of the barriers applied on year 2009 they mostly had a positive impact however, those good times lasted only the time that the tariffs remained. Reason why the government should not take such hasty decisions only considering the impacts by the time set for the measure but also the impact that would be generated after completion

On the other hand, the government should consider that when they close doors to international trade and thus promote the consumption of domestic footwear, they should not forget that Ecuador does not have everything necessary for shoemaking at home. Companies need raw materials from abroad as they do not possess enough to produce these inputs machinery, but must import these products to bring home also paying safeguards simply causes the final product even more expensive. So, I think

the government should be more open to the entry of machinery without tax as well as the raw materials needed to produce internally. Otherwise instead of achieving an improvement, achieved a major complication by getting out material and also lack of stock and artisans down production due to lack of material.

Despite such tariff barriers applied in the year of 2009 promising hope for the Ecuadorian people to improve their situation, many entrepreneurs saw this tariff barrier a gateway to individual progress, however due to the fast decision taken by the government without being previously analyzed caused bad conditions to new and experienced entrepreneurs, even causing the breakdown of factories and workshops after the tariff barriers ended. That is why an appropriate deadline should be considered when applying this type of taxes in order to have a real effectiveness since many of them are up changing not only in time but also in percentages and values that may damage or benefit depending the case.

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