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**"ANALYSIS OF TRADE RELATIONS BETWEEN ECUADOR AND THE REPUBLIC OF
KOREA: PERIOD 2009-2016"**

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Index of Contents

Index of Contents	II
Figure Index	V
Illustration Index.....	V
Table Index	V
ABSTRACT	VII
RESUMEN	VII
Introduction	8
CHAPTER I: THEORETICAL FRAMEWORK	10
Introduction.....	10
1.1. International Trade Theory	10
1.1.1. Mercantilism	10
1.1.2. Adam Smith's absolute advantage theory.....	11
1.1.3. Comparative advantage theory of David Ricardo	12
1.1.4. The Heckscher-Ohlin Model	13
1.1.5. Paul Krugman and his contribution to international trade: The new theory of international trade.....	13
1.1.6. Michael Porter's competitive advantage theory.....	14
1.2. Balance of trade	16
1.2.1. Balance of trade concept.....	16
1.2.2. Importance of the commercial balance for a country	16
Conclusion	17
CHAPTER II: COMMERCIAL POLICY OF ECUADOR	18
Introduction.....	18
2.1. Trade in Ecuador: Background	18
2.1.2. Ecuador in the regional integration organisms.....	23
2.1.3. Trade agreements.....	27
2.2. Legal Framework.....	28

2.2.1. Constitution of Ecuador	28
2.2.2. National Development Plan	30
2.2.2. Organic Code of Production, Commerce and Investment	31
2.3. Main national regulatory bodies of Foreign Trade.....	32
2.3.1. Ministry of Foreign Trade.....	32
2.3.2. National Customs Service of Ecuador	33
CHAPTER III COMPARATIVE ANALYSIS OF GENERAL DATA BETWEEN ECUADOR AND THE REPUBLIC OF KOREA	35
INTRODUCTION	35
3.1. General features	35
3.1.1. Geography	35
3.1.2. Demography.....	37
3.1.3. Political division.....	39
3.2. Economy and management of foreign trade	40
3.2.1 Components of GDP	40
3.2.2. Trade balance	45
3.2.3. Commercial Partners	50
3.3. Foreign policy	55
Conclusions.....	57
CHAPTER IV ANALYSIS OF COMMERCIAL RELATIONS BETWEEN ECUADOR AND THE REPUBLIC OF KOREA. PERIOD 2009-2016.	59
Introduction.....	59
4.1. Trade agreements between the Republic of Ecuador and the Republic of Korea	59
4.1.2. Negotiating Rounds of the Strategic Economic Cooperation Agreement	60
4.2. Analysis of the bilateral trade balance between Ecuador and the Republic of Korea	60
4.2.1. Main export products from Ecuador to the Republic of Korea ..	63

4.2.2. Main export products from the Republic of Korea to Ecuador..	67
Conclusion	71
CHAPTER V ANALYSIS AND PROPOSAL TO IMPROVE ECUADORIAN EXPORTS TOWARDS THE REPUBLIC OF KOREA	73
Introduction.....	73
5.1. PEST Analysis.....	73
5.2. SWOT Analysis	77
5.3. Porter diamond applied to Ecuador.....	78
5.3. Proposal to improve the flow of exports from Ecuador to the Republic of Korea	80
Conclusion	87
CONCLUSIONS	89
RECOMMENDATIONS.....	91
Bibliography.....	92

Figure Index

Figure 1 Average of Ecuadorian exports per trade bloc	24
Figure 2 Ecuadorian exports by member country of the Andean Community.	26
Figure 3 Ecuadorian imports by member country of Andean Community.....	26
Figure 4 Ecuador trade balance with Andean Community. 2009-2016.....	27
Figure 5 Population growth of the Republic of Korea and the Republic of Ecuador (Number of inhabitants and Growth rate).....	37
Figure 6 Distribution of the population of Ecuador and the Republic of Korea by age.	38
Figure 7 Evolution of the nominal GDP of Ecuador and Real GDP growth rate	41
Figure 8 Evolution of nominal GDP of the Republic of Korea and	43
Figure 9 Evolution of the Commercial Balance of Ecuador.....	47
Figure 10 Evolution of the Trade Balance of the Republic of Korea.....	49
Figure 11 Percentage distribution of exports by country of destination.....	51
Figure 12 Evolution of the component of the Trade Balance between Ecuador and the Republic of Korea from 2009 to 2016. Thousands USD FOB	62
Figure 13 Evolution of the Trade Balance between Ecuador and the Republic of Korea from 2009 to 2016 Thousands USD FOB	63

Illustration Index

Illustration 1 Political Map of the Republic of Ecuador	35
Illustration 2 Political Map of the Republic of Korea	37

Table Index

Table 1 Distribution of GDP of Ecuador by industry (%)	42
Table 2 Distribution of GDP of the Republic of Korea by industry. (%).....	44

Table 3 Ecuadorian exports by destination. 2009-2016	50
Table 4 Exports of Ecuador by country of destination.	51
Table 5 Ecuador's imports by country of origin.	52
Table 6 Ecuadorian imports by country of origin.....	52
Table 7 Exports of the Republic of Korea by country of destination.....	53
Table 8 Exports of the Republic of Korea by country of origin.	54
Table 9 Imports of the Republic of Korea by country of origin.....	55
Table 10 Imports of the Republic of Korea by country of origin.....	55
Table 11 Evolution of the Trade Balance between Ecuador and the Republic of Korea from 2009 to 2016. Thousands USD FOB	61
Table 12 Main export products from Ecuador to the Republic of Korea. Period 2009-2012.	64
Table 13 Main export products from Ecuador to the Republic of Korea.	66
Table 14 Main export products from the Republic of Korea to Ecuador.	67
Table 15 Main export products from the Republic of Korea to Ecuador.	69
Table 16 Proposal to improve trade relations between the Republic of Korea and Ecuador	84

ABSTRACT

Searching for new business partners has taken relevance in the management of the Ecuadorian foreign policy. In this context, this research is focused on evaluating the progress of commercial relationships with one of those non-traditional business partners: the Republic of Korea. To that end, this research uses quantitative data that help the process of evaluating the situation of the bilateral trade balance. The conclusions obtained in the first phase of the research, together with the analysis of the environment, contribute to the elaboration of a process improvement matrix that serves as a roadmap to boost the development of the manufacturing sector through foreign trade activities.

RESUMEN

La búsqueda de nuevos socios comerciales ha tomado relevancia en la gestión de la política exterior ecuatoriana. En este contexto, esta investigación está enfocada en evaluar el avance de las relaciones comerciales con uno de aquellos socios comerciales no tradicionales: la República de Corea. Para ello, usa datos de tipo cuantitativo que ayudan al proceso de interpretación de la situación de la balanza comercial bilateral. Los datos obtenidos de esta primera fase de la investigación, junto al análisis del entorno, ayudan a la elaboración de una matriz de mejora de procesos que sirve como hoja de ruta para impulsar el desarrollo del sector manufacturero a través de actividades de comercio exterior.

Introduction

One of the most important debates in international trade aims to solve the problem posed to a globalized world in which only the powerful countries are the beneficiaries of commercial activity, while the smaller countries do not make a profit. By virtue of this, we intend to know the situation of trade relations between Ecuador and the Republic of Korea, in order to determine if there is a mutual gain or only one of the parties obtains benefits.

In this work "the evolution of trade relations between Ecuador and South Korea", through an exploratory study, we seek to determine how beneficial it is to have South Korea as a commercial partner through the analysis of quantitative data. With this information, we will proceed to determine the products of greater export between the two economies, and then propose a plan to improve bilateral trade between both countries.

The present work is structured in five chapters. The first will serve to delimit the theoretical framework that will guide this work, making an analysis of literature that will provide knowledge on the classical theory of foreign trade as the theories of absolute and competitive advantage, as well as the current postulates that make up the New Theory of Commerce like the analyzes of Paul Krugman or Michael Porter.

The second chapter analyzes how the Ecuadorian State structures its entities to comply with the guidelines of the commercial policy. For this, a first historical data study will be done to explain the productive model of Ecuador, and how this has influenced the creation of the country's trade policies. After this, the situation of Ecuador in the main regional blocks of economic integration will be made, emphasizing the Latin American Integration Association and the Andean Community of Nations, and then proceed to the analysis of the legal framework that regulates the development of commercial activity within Ecuador: Constitution of Ecuador, the National Development Plan, and the Organic Code of Production, Trade and Investment. Finally, the two main institutions responsible for managing and applying the guidelines of the trade

policy will be analyzed: the Ministry of Foreign Trade and the National Customs Service of Ecuador.

In the third chapter, we will analyze certain demographic, geographic, and economic indicators of the two economies in order to know and compare the situation of each State in the aforementioned areas. Economic indicators will be analyzed, such as the Gross Domestic Product and the Commercial Balance. Likewise, export and import products of both economies will be analyzed.

In the fourth chapter an analysis of the accounts of the bilateral trade balance between Ecuador and the Republic of Korea is carried out, analyzing the evolution of the balances, the main variations, and the products that have relevance in the target markets and that have great exchange flows. In order to give uniformity to this work, an analysis of the accounts of the Central Bank of Ecuador will be carried out, dividing the study into two periods: 2009-2012 and 2013-2016.

Chapter five will contain an analysis of the environment, which will include a SWOT, PEST and Porter Diamond analysis applied to the country. This will be done with the motivation of knowing the current characteristics of Ecuador, and how these influence the commercial relations between both countries.

We will make a proposal to improve relations between both States. This proposal is an improvement plan adapted to the present analysis. Finally, we will proceed to make the final conclusions of the work that will summarize the main findings of this research, as well as a series of recommendations that will be made based on chapter five

CHAPTER I: THEORETICAL FRAMEWORK

Introduction

The aim of this chapter is to study the theoretical foundations that throughout history have tried to explain how States make decisions in the commercial sphere trying to obtain profits from this activity. A great diversity of authors trying to give foundation to the dynamics of the international trade have published studies that constitute the international theory that will be studied in the present chapter.

Through the study of an extensive bibliography, we try to know the influence that the mercantilist theories had on the development of the international trade. Likewise, a brief analysis of the precepts that make up the theories of absolute and comparative advantage will be made, without forgetting to study the influence of the new theorists of the trade theory such as Paul Krugman and Michael Porter.

Finally, we will proceed to explain the theoretical foundations that give rise to the trade balance and the importance that it has for a State.

1.1. International Trade Theory

The dynamics of commercial exchange between countries have been studied for several years by theoreticians. For the correct development of this thesis, it is important to understand the main theoretical postulates that have contributed to the development of international trade.

1.1.1. Mercantilism

Mercantilism is one of the first economic theories that identify the importance of foreign trade for a country's economy. Between 1500 and 1750, this thought prevailed in the nations of the world, mainly due to the little development of economic theory.

In its postulates, authors such as Jean Bodin or William Petty, defends the concept of merchandise trade as the main source of resources for a country. According to this theory, it was convenient to keep the level of exports high and to impose barriers such as taxes and tariffs in order to restrict imports because the exodus of currencies could put the nation at risk. In this way, the

number of currencies accumulated determined the power of a state. For mercantilists, there should be currency exchange when a country should purchase cheap raw materials for the production of finished products destined for export. They conclude affirming that the state should relate to private sector, channeling "the private interest to turn it into public benefits" (Landreth & Colander, 2006)

1.1.2. Adam Smith's absolute advantage theory

One of the first attempts to explain international trade was made by Adam Smith, who proposed the theory of absolute advantage.

Smith, in his book *The Wealth of Nations*, criticizes the mercantilist postulates, especially those that relate the prosperity of a country with the number of reserves of currencies that the nation accumulates. In contrast, Smith bases his theory on the premise that nations will obtain a greater amount of economic values if "division of labor" is added to productive processes to generate greater specialization in order to generate greater productivity. For Smith, the commercial policy that a country adopts should be developed in order to "preserve and protect free competition" (Torres Gaitan, 1976, pág. 138).

Smith promotes the idea of creating an environment in which competition and specialization are promoted, enabling a country to obtain "absolute advantages" in the production of certain goods. Francisco Mochon explains in his book *Economy, Theory and Politics* that a country has an absolute advantage when it "can produce more quantity of a good, with the same resources, than its neighbors". (2009, pág. 392).

In this way, in the supposed scenario in which two countries produce computers and cell phones, but for "X" it is cheaper to produce computers than "Y", while "Y" uses fewer resources in the production of cell phones than "X", each country will have an absolute advantage in the production of a good. According to Smith's theory, this situation would benefit both countries because "X" will be able to import cell phones from "Y" at a lower price, just as "Y" will be able to import computers at a lower price from "X".

1.1.3. Comparative advantage theory of David Ricardo

In 1817, the English economist David Ricardo published the book *Principles of Political Economy and Taxation* in which he contributes to the theory of international trade, based on the postulates of Adam Smith and the theory of absolute advantage.

Ricardo believes that Smith's theory is imperfect since it does not take into account the assumption that one country can produce two goods more efficiently than another country. If the second country would not develop an absolute advantage, could not trade.

The model proposed by David Ricardo takes into account variables that, until that moment, had been discarded in the analysis of international trade. For Ricardo, the Smithian model do not take into account that trade normally takes place between nations of different levels of development (Cue Mancera, 2014, pág. 33).

Ricardo's model aimed to prove that the existence of absolute advantages was not necessary to develop "specialization and international trade between two countries". (Mochon, 2009, p. 393)

In this way, "X" may not have absolute advantages in the production of a good. However, if that country can produce a good at a lower cost than other countries, "X" would have a comparative advantage in the production of a good.

In short, the theory of comparative advantage states that "it is convenient for a country to specialize in the efficient production of goods and to buy from other countries those goods that it produces less efficiently". (Hill, 2011, p. 160)

Paul Krugman, in his book *International Economics: Theory and Politic*, considers that the Ricardian model demonstrates that in international commercial activity could exist mutual benefits or "gains from trade". If a logical reasoning is applied, a country that chooses to produce a good will be able to exchange it in the future for another good produced by a neighboring country. In this way, the aforementioned author states that the Ricardian model creates a system of "indirect production that requires less work than direct production". (pág. 52)

1.1.4. The Heckscher-Ohlin Model

Based on the Ricardian model, Eli Hecksher and Bertil Ohlin wondered whether the origin of comparative advantage lied in the specialization and productivity of work, or it came from another source. This question originates the *Factor Proportions Theory*, which has as its main postulate that comparative advantage "is related to the different factors of production that countries have" (Hill, 2011, p.167).

For Hecksher and Ohlin, each country has a different level of productive factors such as land, labor and capital. The abundance or shortage of these will affect the cost of producing a good. In this way, Zhang (2008) explains that it would be more convenient for a country to enter into a specialization process of those "industries with greater capacity to use the combination of productive factors in a more efficient way".

Under this model, the winners and losers of international trade appear, since the beneficiaries of the commercial activity will be the owners of the most abundant productive factors, while the damaged will be the owners of scarce factors.

1.1.5. Paul Krugman and his contribution to international trade: The new theory of international trade

Paul Krugman states in his book *International Economics* that foreign trade may be conditioned by levels of specialization, but the cycle of commercial activity has its origin in economies of scale. In other words, a country will be more involved in the commercial dynamics if its industry is able to increase its average costs in comparison to the marginal costs; situation that is reflected in a reduction of average costs as production increases in escalation.

For Krugman, there are two types of economies of scale. On the one hand, there are external ones in which the cost per unit depends on the size of the industry and the size of each company is not important. On the other hand, in the internal, the unit price depends on the size of the company while the size of the industry loses relevance.

In internal economies of scale, imperfect competition models arise because the number of suppliers is very small, so those companies can influence when

determining the prices of their products and "can only sell more by reducing their prices". (Krugman & Obsfeld, 2006, p. 122)

The model of monopolistic competition has its origin in the internal economy of scale, and is based on two assumptions. First, the ability of a company to differentiate its products will make customers discard the competition since the costumer will not choose the product thinking about the price, but by other types of factors. In the second case, companies do not take into account the prices of their rivals, which allows them to work as monopolies.

Contributing to the theory of international trade, Krugman mentions that monopolistic competition favors trade because each country can specialize in producing fewer products, which would make it buy more from other nations. According to (Hill, 2011, p. 171), this increases the "variety of products offered to consumers and reduces their costs".

To contribute to the theory of trade, Krugman also analyzes the north-south model. The model of economies of scale takes into account the reality of productive factors, especially labor, which, according to Krugman, will prefer to be located in places that offer a high level of income and well-being. This area, which is called north, will concentrate a greater amount of productive force that will help companies to easily carry out a process of economies of scale in the manufacture of goods.

On the contrary, the south becomes an exporter of raw materials, so the process of economies of scale is more difficult to apply. In this way, a new dynamic of intra-industry trade is created, in which if it is desired to generate economies of scale in the production of goods whose demand is high, it will be better to have few companies in that industry. This explains the reason why "the trade of certain products is dominated by countries whose companies pioneered their production". (Hill, p.171)

1.1.6. Michael Porter's competitive advantage theory

Understanding that the global dynamics of trade change due to globalization, in his study *The competitive advantage of nations* the economist Michael Porter states that the wealth of a nation is part of a process of creation

and not of inheritance. Therefore, a nation will be competitive if its "industries have the capacity to innovate and improve" (Porter, 2013, p. 163).

As Porter points out (p.163), a country will have a competitive advantage insofar as that nation is able to identify the sectors that can develop in a national environment that promotes progress, dynamism and growth.

To know if the environment favors the progress of the productive sectors, and therefore the creation of a competitive advantage, the author proposes four attributes:

1. Conditions of the factors: The level of specialization of the productive factors, such as labor or infrastructure, is measured (Porter, 2013, p. 174). Explaining a little more this attribute, Buendia (2013, p. 61) points out that it is not enough just to have a high concentration of labor, but it is necessary that the worker has a level of specialization that allows the company to be part of an innovation process capable of generating and applying knowledge, which is a scarcer factor and "more difficult to imitate by national and foreign competitors" (p.Ibid.).
2. Conditions of demand: Evaluation of consumer characteristics through market segmentation. In this way, a competitive advantage is reached if the demand of each segment can offer clear information about what their needs are. Thus, the author mentions that "the magnitude of the internal demand turns out to be much less important than the nature of the demand." (Porter, 2013, p. 182)
3. Related and auxiliary sectors: For companies it is important that the related and auxiliary sectors are located within the nation because this promotes closer working relationships, which favors working relationships in order to achieve innovation.
4. Strategy, structure, and rivalry of the company: It is important to know what the level of competition is, since this will determine the strategies to be taken within the market segment that is being served. For Porter, the existence of rivals is a favorable situation

because this will force all companies in a sector to generate innovation that will reduce costs and improve quality.

1.2. Balance of trade

1.2.1. Balance of trade concept

Monchon (2009) states that the balance of trade is a record of the commercial exchange of goods between countries, where imports and exports of goods can be observed.

Following the logic of the accounting record, the state entity responsible for keeping the record, produces a report in which the monetary income is called exports. The payments, which are a consequence of purchases of merchandise are called imports. The difference between income and expenses is known as balance, which has two results. The first known as trade deficit, which reflects a high number of imports that exceeds exports, and that produces a negative balance. The second result is known as a trade surplus, a situation in which a country exports more than it imports, resulting in a positive balance.

Mercantilist theorists affirmed that it is always necessary to obtain a positive balance, since this reflects a high level of exports and therefore a situation of abundance within the country. However, this theory is challenged by countries such as the United States, whose balance of trade is negative, but in reality their welfare level is high since their economy includes a high level of service provision, which approves what was said by Mochón that "a trade deficit is not necessarily detrimental because services are increasingly important" (2009, p. 402).

1.2.2. Importance of the commercial balance for a country

The trade balance is an extremely important indicator for an economy because it allows to know the movements of exports and imports of a country. In this way, for many governments, this registry contributes to the decision-making process when shaping the commercial policy that will adopt for the coming years. In addition, if an adequate record of the information is kept, it can help a potential investor to know how is the productive structure of a

country, the main commercial partners, the main products that they export and import, the level of specialization of their products, etc.

Conclusion

The purpose of this chapter was to show the progress of the main theories that have influenced the dynamics of international trade and the importance they have had in providing a theoretical foundation that influences the creation of different trade policies.

We examined the mercantilist theories that point out the importance of the trade balance, because a positive balance means that the State is in a positive situation in the economic-productive sphere, since the currencies do not leave the country. Later Adam Smith's theory of absolute advantage was analyzed. That theory introduces the division of labor as a factor that can increase specialization. Then the theories of David Ricardo, Hecksher-Ohlin, Paul Krugman and Michael Porter, explained to the commercial dynamics of their time while demonstrated through economic models how States can take advantage of different situations to obtain profits from International Trade. Those economic models gave rise theories such as comparative advantage, gains due to economies of scale, or competitive advantages.

These theories have influenced several decision-making processes of the States when adopting a development model. However, they represent imperfect economic models that leave some gaps in their studies. These gaps encourage the continuous study of the international commercial dynamics that every day must face changes in the world economy. This continuous change leads to investigations such as the present one that aims to discover the patterns of behavior of Ecuador and the Republic of Korea in the field of commercial relations.

CHAPTER II: COMMERCIAL POLICY OF ECUADOR

Introduction

The purpose of this chapter is to expose the characteristics of Ecuador's trade policy. We will consider the background of Ecuadorian foreign trade, making a historical study of how the country has been introduced in the international market.

Factors such as the membership of Ecuador in the regional integration organizations will be analyzed in order to know the state of Ecuadorian relations with its neighbors. Likewise, the treaties and international agreements that Ecuador has signed will be studied.

After this, the legal framework related to trade activities within the country will be explored, prioritizing the analysis of the Constitution of 2008, the National Development Plan and the Organic Code of Production, Trade and Investment.

Finally, we will study the role of those institutions in charge of the processes of trade policy management and trade logistics administration, such as the Ministry of Foreign Trade and the National Customs Service of Ecuador.

2.1. Trade in Ecuador: Background

To understand the dynamics of the trade situation, it is necessary to carry out an analysis of the productive structure of Ecuador, which has been the cornerstone when creating trade policy.

In *Brief Economic History of Ecuador*, Alberto Acosta makes an analysis of Ecuador as a primary export economy (2012, p. 75). This economic model is based on maintaining "productive, territorial and social structures [which] is adapted to an external demand and foreign to its own development [...], specializing in the production and export of raw materials and food, which sustain industries and services from other national and international levels" (Marquez Dominguez, 2010, p. 18).

After the colonial period, Ecuador maintained an agro-export model characterized by the export of products whose added value was low, and the import of inputs (Acosta, 2012, p. 53). Due to the successful adaptation of the

international division of labor, Ecuador was integrated into the international market as "supplier of raw materials" (Acosta, 2012). This contributed to the economic development of the great powers since they had access to cheap commodities for their industries that were in development.

For Acosta, this would be the beginning of an "incipient export economy" (p. 53), which would remain unchanged until the mid-twentieth century, when capital from the United States entered in Ecuador to invest in infrastructure. Thus, public works were developed, such as the Ecuadorian railway whose main contractor was the *Guayaquil and the Quito Railway Company* (Harman and Robinson, 2007, p. 58). This work contributed to the development of internal integration, and would be key to increase domestic and international trade since "the amount of Ecuadorian exports, which in 1852 was \$1,215,000 and increased to \$9,762,000 in 1890; also the imports that, for this last year, registered a value higher than \$9,100,000 "(Moncada, 2008, p. 63).

Ayala (1983, p. 62) mentions that for this time the commercial activity had begun the process of development, which in the book *New History of Ecuador* is called a cocoa boom.

Originated in the early nineteenth century, the cocoa boom was based on: the continuous increase in the prices of cocoa quintal, the increase in cocoa production in large plantations that belonged to few landowners, the exodus of labor towards the coast, and the emergence of new markets such as England or Germany (Chiriboga, 2013, p. 57). In this way, the "pepa de oro" became the pillar of the Ecuadorian economy. By 1885, cocoa was the most exported Ecuadorian product, concentrating the 83% of exports by 1885.

In order to reinforce the role of the State in the economic problems, some transcendental reforms took place, such as the adoption of the gold standard monetary system in 1897, which established an exchange rate in gold for each monetary unit. Likewise, the Customs Law was adopted and the process to pay the construction of the railway began.

According to Ayala Mora (1983, p. 101), the cocoa boom ended in 1914 because of the reduction in the price of cocoa caused by the emergence of

new suppliers and the beginning of World War I. This situation would become more critical with the emergence of plagues in the cocoa plantations. The severe national economic crisis that followed this situation was the first proof that economies that are dependent of fluctuations of prices have a high risk of facing problems in their production structures if production processes are not modernized.

According to Larrea (1987, p. 37) between the period 1948 to 1965 another period of economic growth known as the banana boom occurred.

At the beginning of the 20th century, fruit producing companies such as *Standard Fruit* and *United Fruit* realized that Ecuador was resistant to many pests that attacked banana plantations, which caused these companies to move to Ecuador to invest.

There are four reasons that generated a large income. First, arable land for bananas was located in the coastal region, where there was a greater concentration of labor and where the "State built the road and port system" (1987, p. 52). Second, Ecuador had inherited from the cocoa boom a system where the largest amount of resources were held by a small group of landowners, which allowed them to impose conditions on prices, wages and the utility to be distributed among small producers. Another cause of the banana boom was the low level of specialization of the productive process of a good that was destined for the external market. Finally, the role of the State was very important because it contributed to the development of the sector, allowing "the financing and maintenance of the infrastructure, as well as the development of phytosanitary campaigns. Export taxes were reduced since 1969 and disappeared in 1976, except for a small amount charged to producers for air-fumigation" (Larrea, 1987, p. 55).

The increase in exports and income that national exporters destined for national reinvestment helped Ecuador to begin its late industrialization stage. Likewise, and as pointed out by Ayala Mora (1984), there is an increase in national production due to the increase in State intervention in the economy that helped to redistribute part of the surplus of productive activities in sectors that were not linked to banana, which made the domestic market stronger.

An attempt was made to implement an industrialization policy by import substitution, which was based on the logic that in the world there is a relationship of center-periphery countries. Thus, the countries of the "center" exported high-value finished goods to the "periphery" at the same time that it was constituted as a supplier of raw materials. This created a relationship of inequality in the redistribution of resources that is an "important factor in the survival of the historical hegemony of the centers on the periphery" (Prebisch, 1983). The objective of this theory was to economically separate Latin America from the United States, increasing the influence of the State in the economy, promoting its own industrialization, limiting the outflow of capital, and reinvesting the surplus of imports in the modernization of the national industry. However, this model was not consolidated in Ecuador, due to the model of primary-export production established since the end of the colonial period.

Again, the Ecuadorian economy was hit by the reduction in banana exports due to the emergence of new banana offering countries that offered banana varieties whose value was lower than the banana produced in Ecuador.

In 1971, Ecuador became part of the group of oil exporting countries. By 1980, it doubled the production of oil, which "became a revitalizer of the economy" (Acosta, p. 149). However, Ecuador's income not only came from surplus oil sales, but also the access to new markets allowed obtaining new sources of credit. Alberto Acosta mentions that there was a process of economic growth that benefited new sectors that produced shrimp, coffee, and bananas.

The end of the oil boom began in 1982 due to the reduction in oil prices that led to the adoption of neoliberal policies whose objective was to "reprimarize the peripheral economies by consolidating the primary export accumulation modality and disarming attempts to promote a relatively autonomous industrialization" (p. 199). Again, Ecuador was a victim of the Dutch disease, which is explained by Alberto Acosta as the situation that:

... infects the exporting country of raw material, when the high price or the discovery of a new deposit unleashes a boom of primary export. The distortion in the economy materializes in the relative structure of prices. The investments flow towards the sectors benefited by the boom, among which are the non-tradable goods (not tradable in the international market), for example, the construction

sector. At the same time, there is an accelerated deterioration in the production of those tradable goods that do not benefit from the export boom, as long as they can be imported, even due to the revaluation of the national currency. After the boom, due to the existence of rigidity to revise prices and wages, the adjustment processes are very complex and painful; another manifestation of said disease.

(Page 161)

After implementing a capitalist economic model, the crises of 1983, 1987 and 1998 occurred. During the last one, the process of dollarization began, adopting the currency of the United States as a measure to reduce inflation and boost development in the country. In terms of commercial activity, these years were characterized by the commercial openness that led to the reduction of tariffs and the export of new products, whose origin was in the highlands of Ecuador, and whose main destination was the United States.

After stabilizing the economy, the Lucio Gutiérrez government began a series of negotiations to reach trade agreements with the United States, but the rounds of negotiations never closed.

After coming to power, Rafael Correa begins a stage of change in terms of trade policy, promoting trade protectionism in order to develop the national industry. Thus, a process of institutional reform was initiated, promoting a constituent process of 2007 that aimed to benefit the commercial sector and bind Foreign Direct Investment.

In order to protect the national industry, Ecuador adopted barriers such as tariffs as the main tools of trade policy. Clear example of this have been the safeguard measures imposed for imports.

The transformation of the State and the increase in public spending were obtained by increasing the income from the sale of oil. Thus, during the government of Rafael Correa, the main export product was oil. According to the Central Bank, oil represents 57% of total exports, while the main non-oil export product was Banana, accounting for 11% of total exports.

There was a tendency to establish new commercial relationships between Ecuador and countries such as Brazil or the People's Republic of China. It helped to diversify business partners.

2.1.2. Ecuador in the regional integration organisms

In the book *The Political Dynamics of European Economic Integration*, the teacher Lindberg (1963) defines integration as

"the process whereby nations for the desire and ability to conduct foreign and domestic policies independently of each other, seeking instead to make joint decisions or to delegate the decision-making process to new central organs; and the process whereby political actors in several distinct settings are persuaded to shift their expectations and political activities to a new center". (P. 6)

There are several reasons why States want to integrate. For the theorists of complex interdependence like Keohan and Nye, common interests are the basis of an international order based on joint decision-making and the creation of commercial alliances that eliminate "the problems of hierarchies" (1987, p. 731) .

In this system, the problem for countries such as Ecuador, whose economy has trade as a cornerstone, it is important to choose carefully the trade partners. That is why, beyond defining the common interest, countries must establish partnerships with countries with similar economic contexts. That is why the States create regional integration organizations that are "permanent common institutions, capable of making binding decisions for all members". (Malamud & Schmitter, 2006, p. 17)

Going beyond bilateral trade, and based on the idea of regionalism, Ecuador has decided to ratify certain international instruments that allow it to be part of various integration organizations. In this thesis, we will study commercial organizations such as the Latin American Integration Association and the Andean Community of Nations.

2.1.2.1. Latin American Integration Association

The Latin American Integration Association (LAIA or ALADI in Spanish) was founded in 1980. This organization was created to promote a "horizontal cooperation scheme between developing countries and their integration areas". (ALADI, 1980).

This organization has thirteen members: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Panama, Paraguay, Peru, Uruguay and Venezuela.

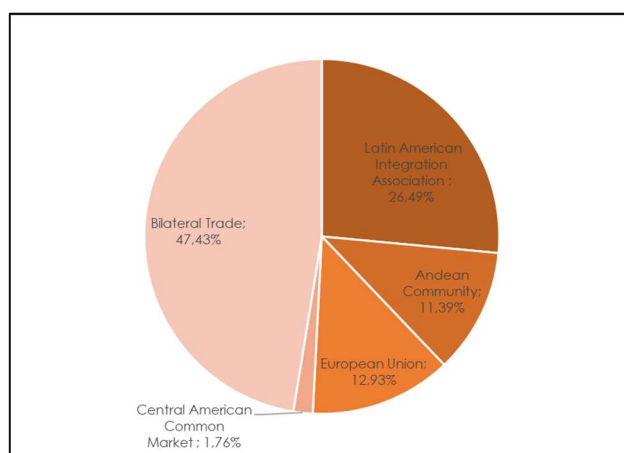
ALADI aims to establish an area of economic preferences whose pillars are the "Regional Tariff Preference, Regional Scope Agreements and Partial Scope Agreements". (Garnelo, 2011, page 28)

Within this group, Ecuador, as one of the members with the lowest economic development, has certain preferences, such as obtaining benefits from the Support System for Countries of Lesser Economic Development (SSCLD). This system is based on establishing:

1. Favorable conditions for the SSCLD through non-reciprocal preferential treatment, eliminating customs duties [...],
2. Special cooperation programs in the areas of pre-investment, financing and technology
3. Rules to keep preferences, the elimination of non-tariff restrictions and the application of safeguards in justified cases. (ALADI, 2018)

Based on this process, Ecuador has signed the Regional Agreement Relating to the Regional Tariff Preference, by which the members offer tariff preferences to the mutual imports.

Figure 1 Average of Ecuadorian exports per trade bloc



Author: Estrella, Juan

Source: Central Bank of Ecuador

Thus, as can be seen in Figure 1, between 2009 and 2016, 26% of exports from Ecuador are destined to the member countries of ALADI. Chile is the most important member since it concentrates 28% of the total exports to ALADI.

2.1.2.2. Andean Community of Nations

The Andean Community of Nations was founded in 1969 when Bolivia, Colombia, Chile, Ecuador and Peru signed the Cartagena Agreement to establish a process of integration of the Andean countries. However, due to ideological issues, Chile withdrew from the agreement, abandoning the block to which Venezuela had adhered in 1973.

There were several attempts to create a policy that would create "the most favorable conditions to transform LAFTA, now known as ALADI, into a common market" (Figuerola, 2010, p. 300).

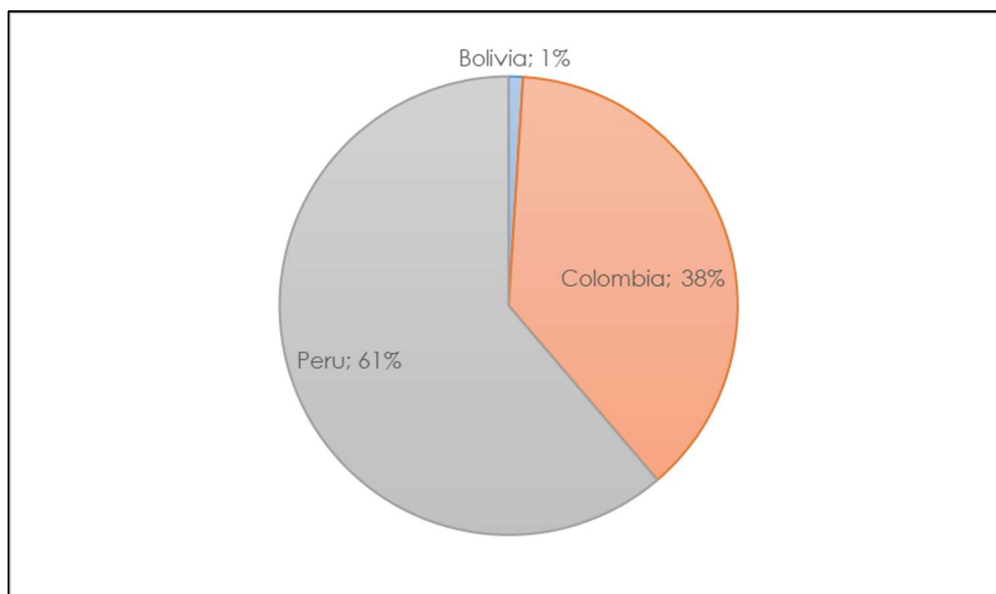
The Andean Integration System has the Andean Parliament as the legislative body, the General Secretariat of the Andean Community as the executive body, and the Andean Court of Justice as a judicial body.

One of the most significant facts in terms of trade policy was the elimination of all tariffs, which created a free trade zone that favored the exchange of goods and the flow of capital.

For 2006, due to negotiations to create free trade agreements between members of the Andean community and the United States, Venezuela decided to withdraw from the Cartagena Agreement claiming that the Andean project "has died" (Hernandez, 2006). In this way, as Donoso (2011) mentioned, the Andean market was reduced because Venezuela represented one third of the community's trade.

As can be seen in Figure 1, between 2009 and 2016, the Andean Community of Nations was the second destination of Ecuadorian exports per regional trade bloc. The main destination of Ecuadorian exports is Peru, which during the years 2009-2016 concentrated 61% of exports, while Colombia was the destination of 38% of exports. Exports to Bolivia represented 1% of the total exported to the Andean Community.

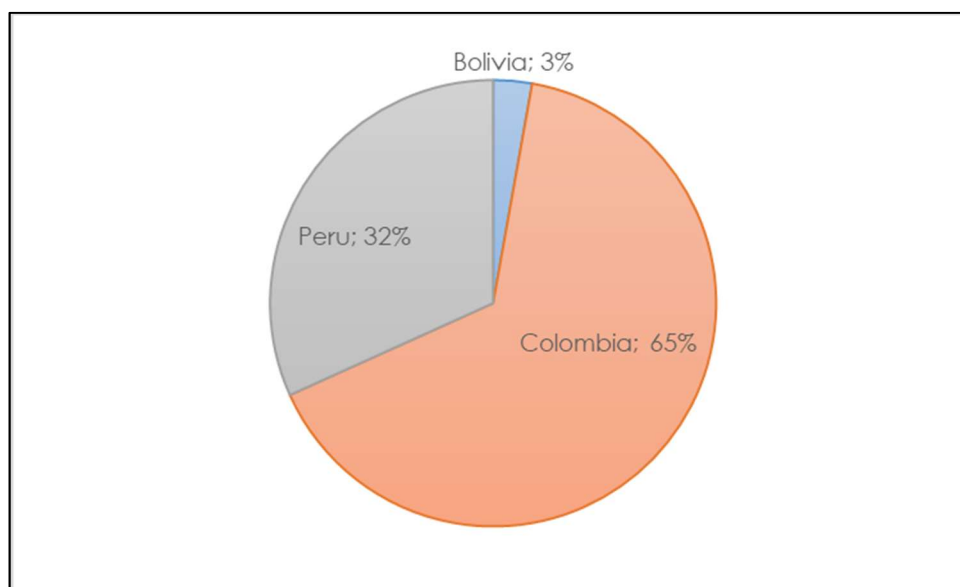
**Figure 2 Ecuadorian exports by member country of the Andean Community.
2009-2016**



Author: Estrella, Juan

Source: Central Bank of Ecuador

**Figure 3 Ecuadorian imports by member country of Andean Community.
2009-2016**



Author: Estrella, Juan

Source: Central Bank of Ecuador

If we analyze the average of imports by member of the Andean Community, in Figure 3, we can see that Ecuador imports from Colombia are equivalent to 65% of total imports. On the other hand, imports from Peru and Bolivia only amounted to 32% and 3% of total imports.

Figure 4 shows the trade balance between Ecuador and CAN, concluding that Ecuador has had a negative balance in its commercial relationship with its Andean partners in all the years. This situation calls into question whether belonging to this regional block is positive or not.

Figure 4 Ecuador trade balance with Andean Community. 2009-2016



Author: Estrella, Juan

Source: Central Bank of Ecuador

2.1.3. Trade agreements

This section will analyze the main treaties or agreements of a commercial nature that Ecuador has signed.

2.1.3.1. Trade Agreement between the European Union and Ecuador

Taking into account that the European Union is one of the largest markets in the world, negotiations to sign a trade agreement between Ecuador and the European Union began in 2007. Due to political reasons, this process was delayed until 2016 when Ecuador signed the Protocol of Adherence to the Trade Agreement with the EU.

According to the official documents of Ecuador, the agreement represents the opportunity to modernize the productive matrix "in a context of intelligent

insertion into international markets, under a strategy of optimization of benefits" (Foreign Trade Ministry, 2014, p. 4)

Before accession to the agreement, Ecuador traded with Europe under the regime of Generalized System of Preferences, which granted total or partial sales to traded products. Ecuador operated under the "Cumulation of origin" sub-regime, which established that:

Where a product has been manufactured in or with inputs from two or more countries belonging to a group enjoying regional cumulation, inputs from other countries of the same group are treated as if they originate in the exporting beneficiary country. (European Commission Directorate-General for Trade, 2004)

Under the current agreement, Ecuador will be able to obtain great benefits. As explained by a source from the Ministry of Foreign Trade of Ecuador, suppressing tariffs on the exportable supply of products of agricultural and industrial origin will generate an increase in exports, having an impact on the increase in revenues. However, (Abad & Torres, 2018) state that due to the increase in imports from Europe, the agreement does not help the productive development of Ecuador. Nevertheless, it contributes to "the stability of traditional trade flows" even though it is not achieved the "objective of Ecuador based on promoting higher value-added activities and strengthening the agro-export model based on the competitive advantages of the low cost of local labor". (2018)

2.2. Legal Framework

2.2.1. Constitution of Ecuador

In the essay *Why a new economy in a new Constitution?* Carrasco (2015, page 73) points out that in the Constitution of a country there are "constitutional precepts that define the framework of action for the development of socio-economic activities of public, communal, associative and private entities".

After the creation of the 2008 Constitution, the idea of Good Living becomes the cornerstone of the State's actions in its activities, including economic-commercial policy.

In this way, the Constitution determines the powers of the central State, in article 261, literal 5, expressing that it has the exclusive competence over:

Article 261. –“Economic, tax, customs, and tariff policies; fiscal and monetary policies, foreign trade and debt.”

These activities are related to the economy; therefore, they have to be developed based on what is established in Article 283:

Article 283. The economic system is socially oriented and mutually supportive; it recognizes the human being as a subject and an end; it tends towards a dynamic, balanced relationship among society, State and the market, in harmony with nature; and its objective is to ensure the production and reproduction of the material and immaterial conditions that can bring about the good way of living. (Constitution of the Republic of Ecuador, 2008)

This article is related to articles 304, 305 and 306, which establish the competition as a factor to create tariffs, the objectives of trade policy, and the principles that rule trade relations between Ecuador and other States.

Article 304. The trade policy shall have the following objectives:

1. To develop, strengthen and give impetus to domestic markets on the basis of the strategic objective set out in the National Development Plan.
2. To regulate, promote and implement actions conducive to boosting the country's strategic insertion in the global economy.
3. To bolster the domestic productive system and production.
4. To contribute to guaranteeing food and energy sovereignty and the reduction of internal inequalities.
5. To foster the development of economies of scale and fair trade.
6. To prevent monopolies and oligopolies, particularly in the private sector and other practices that might affect market functioning. (Constitution of the Republic of Ecuador, 2008)

Article 305. The creation of tariffs and the setting of their levels shall come under the exclusive competence of the Executive Branch. (Constitution of the Republic of Ecuador, 2008)

Article 306. The State shall promote environmentally responsible exports, giving preference to those creating more employment and added value and in

particular the exports of small and medium-sized producers and the artisan sector. (Constitution of the Republic of Ecuador, 2008)

2.2.2. National Development Plan

After the approval of the Constitution of Ecuador, the National Secretariat for Planning and Development (SENPLADES in Spanish) has published three editions of the National Development Plan. The title of the first edition was "Plan for the Citizen Revolution", followed by the "National Plan for Good Living 2009-2013" and the "National Plan for Good Living 2013-2017".

Article 280 of the Constitution of Ecuador establishes that the National Development Plan (NDP) is:

...is the instrument to which public policies, programs and projects, the programming and execution of the State budget, and the investment and allocation of public resources shall adhere. It shall coordinate the exclusive areas of competence between the central State and decentralized autonomous governments. Observation of said Plan shall be mandatory for the public sector and recommended for other sectors. (Constitution of the Republic of Ecuador, 2008)

Currently, the National Development Plan is based on three pillars:

1. Guarantee the rights of the citizen throughout life;
2. Create an economic system that serves society;
3. Encourage the participation of citizens in state management to meet the objectives of the plan.

In objective 5 "Promote productivity and competitiveness for sustainable economic growth in a redistributive and solidary manner", proposals related to the commercial sphere are analyzed. SENPLADES establishes guidelines to "ensure the change to a sophisticated and diverse production structure, carrying out activities with greater added value and technological intensity" (SENPLADES, 2017, page 81)

For this purpose, policy 5.4 is established in order to increase the manufacturing of high added value products in order to meet the needs of the domestic market at the same time that the exportable offer grows. Thus, Objective 5 sets out as goals related to the commercial sector: increase non-

oil exports related to the agricultural and agroindustrial sector, while seeking to reduce the concentration of oil exports.

2.2.2. Organic Code of Production, Commerce and Investment

As Cordero (2012) points out, the *Organic Code of Production, Trade and Investment*, also known as COPCI in Spanish, is the law that promotes in Ecuador productive activities of a private nature, including commercial activity as mentioned in the Article 2 of the aforementioned normative body.

The purpose of the COPCI is "regulating the productive process on its stages of manufacture, distribution, interchange, trade, consuming, handling of externalities and productive investments" (Organic code of production, trade and investments, 2010)

Thus, the relationship between the State and the private sector should promote Good Living as the objective of the relationship, which is also regulated by law.

The COPCI contains 5 books that regulate the different axes of productive activity. Book I " Production development, mechanisms and public body of competence" establishes the role of the State in the productive sphere, as well as the principles that must be followed by the actors involved in production, such as Dignified Productive Work, Innovation, Training and Entrepreneurship.

Book II "The development of productive investment and its instruments", defines productive investment as "the cash flow destined to produce goods and services, to enlarge productive capacity, and to generate employment sources in the national economy." (Organic Code of Production, Commerce and Investments, 2010, page Art. 13). In the same way, it establishes the rights and obligations of the investor. Likewise, incentives are established for those who develop a productive activity.

Book III "Entrepreneurial development of micro, small, and midsize businesses and the democratization of production" establishes the legal framework that regulates MSMEs.

Book IV "Foreign trade, its control bodies and instruments" defines those aspects related to the administration of foreign trade policy, the duties of the governing bodies, the system of tariffs, certifications of origin, promotion of exports.

Administrative and operational activities carried out through the National Customs Service of Ecuador are regulated in book V "Systematic competition and customs simplification"

Finally, book VI "Sustainability of production and its relationship with the ecosystem", establishes the parameters of a commercial activity based on the principles of the environment.

2.3. Main national regulatory bodies of Foreign Trade

2.3.1. Ministry of Foreign Trade

The Ministry of Foreign Trade was created in 2013 through Executive Decree No. 25, with the purpose of establishing a government body capable of directing trade and investment policy. Likewise, it has the responsibility of:

...formulate, plan, direct, manage, and coordinate foreign trade policy, trade promotion, investment attraction, bilateral and multilateral trade negotiations, import regulation and the selective and strategic substitution of imports.
(Presidency of the Republic of Ecuador, 2013)

It is important to highlight that the central function of the Ministry of Foreign Trade is to create the adequate conditions to develop commercial and investment activities in favor of the national interest.

Within the ministry, there is a multilevel structure. As established in the organizational chart of the institution, the "Foreign Trade Minister's Office" is in the first level which is the area where the management and management process takes place. In the second level, there are sub-secretariats and in the third level, there are zonal coordinations.

One of the most important bodies of the Ministry of Foreign Trade is the Institute for the Promotion of Exports and Investments-PRO-ECUADOR, created by Executive Decree No. 351 of December 29, 2010. This body has the status of

entity attached to the ministry, acting as promoter of the country's exportable supply; work done through its commercial offices around the world.

To support the development of the Ecuadorian export sector, this office has as its main roadmap the "Ruta del Exportador" project that, through the establishment of three phases of development of a project, promotes the creation of a viable export plan for a company, working from the advisory stage to the commercial promotion stage.

To support the development of the Ecuadorian export sector, this office has as its main roadmap the "Ruta del Exportador" project that, through the establishment of three phases of development of a project, supports the creation of a viable export plan for a company, working as consultants as well as product promoters.

2.3.2. National Customs Service of Ecuador

The National Customs Service of Ecuador (SENAE in Spanish) was born with the publication of the current Production Code.

As specified in Article 103 of the COPCI, SENAE represents the State when it enters into legal relationships with persons related, both directly and indirectly, to international merchandise traffic.

The SENAE is a public entity that, as mentioned in Article 2 of the "Regulation of Book V of the Organic Code of Production, Trade and Investment", has the responsibility of:

...facilitate foreign trade applying customs legislation and its complementary rules, determinate and collect taxes on foreign trade (...). The SENAE exercises control and customs authority which provides, itself or through concession, the customs services contemplated in the Organic Code of Production, Trade and Investment. (Regulation of Book V of the Organic Code of Production, Trade and Investment, 2011)

The SENAE is a legal entity of autonomous public law with competence within Ecuador. Likewise, SENAE's action is based on Article 104 of the COPCI, which specifies that the principles of customs facilitation are:

- *Simplifying foreign commerce:* The processes of transportation and clearing of goods must be fast and secure;
- *Customs Control:* The processes performed by the customs authority must be safe;
- *Cooperation and exchange of information:* The SENA must work with national and international entities;
- *Good faith;*
- *Publicity:* Communicate any resolution of the customs authority;
- *Use of good international practice.*

Conclusion

In this chapter, we have analyzed the pattern of behavior of the commercial policy of Ecuador. The cocoa, banana and oil booms testify that the Ecuadorian economy gives primacy to the production of goods that do not require high investment and that generate large profits. In this way, a deep-rooted productive structure has been created in the country, which prevents the growth of the national industry, since the productive system is based on the existence of a small group who concentrate the majority of productive factors. Most of the incomes are used to purchase consumer goods and not to reinvest. The price of these goods is conditioned by the international market, which makes the country susceptible to facing economic problems.

In the same way, conditions such as the situation of Ecuador in the regional integration organizations have been analyzed, observing that Ecuador has a trade deficit with most of these organizations. Subsequently, it has been analyzed the state entities that have responsibility for the development of trade policy. This analysis has shown that Ecuador has a broad state structure whose objective is to influence and control production processes, based on the road maps contained in the national development plans.

CHAPTER III COMPARATIVE ANALYSIS OF GENERAL DATA BETWEEN ECUADOR AND THE REPUBLIC OF KOREA

INTRODUCTION

In the field of social sciences, one of the methods of hypothesis testing is comparative analysis. However, in this chapter there is no hypothesis to be tested, but as Sartori (1994) mentions, the comparison will be made as a process to identify similarities and differences.

In this way, this chapter is structured in two parts. First, we will proceed to make a comparative analysis of the Republic of Korea and Ecuador in general aspects such as geographical location, demographic composition, and political division.

In the second part of the chapter, we will analyze the situations of both countries in the economic-commercial field, analyzing their commercial structures, the situation of the trade balance of each country, and their main trading partners.

3.1. General features

3.1.1. Geography

Illustration 1 Political Map of the Republic of Ecuador



Fuente: The CIA World Factbook (2018)

The Republic of Ecuador, located northwest of South America, is a constitutional republic that borders on the north with Colombia, Peru on the south and east, and on the west with the Pacific Ocean. According to the Oceanographic Institute, Ecuador is a country whose extension extends to 270,670 km², which makes it a small country but with a great biodiversity, as well as a large number of water and mineral resources.

Ecuador extends on both sides of the Andes mountain range. The Ecuadorian mainland is divided into four main physical regions: the Coast (coastal region), the Sierra (highland region), and the East (eastern region), and the insular region. These regions are characterized by their climatic diversity prevailing in the coast tropical climates: humid and dry with average annual temperatures of 25°C. In the sierra region, with temperatures ranging from 13°C to 18°C, temperate and dry temperate inter-Andean climates prevail, while in the eastern zone the humid Amazonian climate predominates.

On the other hand, the Republic of Korea is located on the Korean Peninsula, which is divided by the 38th parallel north that divides North Korea and South Korea. In this way, the Republic of Korea borders North Korea to north, East China Sea to the south, the Sea of Japan to the East, and the Yellow Sea to the west. In addition, South Korea has sovereignty over 3,580 coastal islands, so that its extension borders 99,720 km², of which 70% are mountainous areas unfit for sowing. (Academy of Korean Studies, 2016, p. 33). The other 30% of the territory is constituted mainly by plains that are located next to the main rivers such as the Han River, Kŭm, and the Naktong, which benefit the development of the agricultural sector. (Encyclopedia Britannica, 2018). Due to its location in the extreme east of Asia, the entire Korean Peninsula enjoys the four climatic seasons, where warm summers and cold winters predominate. In the mountainous areas of the north, temperatures are lower compared to the southern coastal areas.

Illustration 2 Political Map of the Republic of Korea



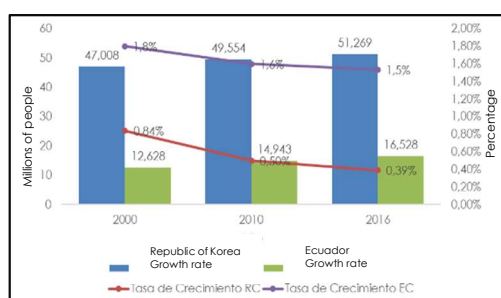
Fuente: The CIA World Factbook (2018)

3.1.2. Demography

The population of the Republic of Korea was 51.47 million inhabitants in 2016, while, according to data from the National Institute of Statistics and Census (Instituto Nacional de Estadísticas y Censos in Spanish), in the same year, Ecuador registered a population of 16.77. millions of inhabitants. Although, the numbers show that South Korea has a larger population, the Ecuadorian population growth is higher compared to the growth rate of the Asian country.

Based on the estimates of the statistical research services of both countries, the population structure by sex varies. In the Republic of Korea, the population is divided into 25,696,987 million men and 25,572,567 million women in 2016. In the case of Ecuador, the demographic dynamics in terms of division by sex shows that there are more women than men since, in 2016, it is expected that in Ecuador there were 8,343,760 women compared to the 8,184,970 registered as male population.

Figure 5 Population growth of the Republic of Korea and the Republic of Ecuador (Number of inhabitants and Growth rate)

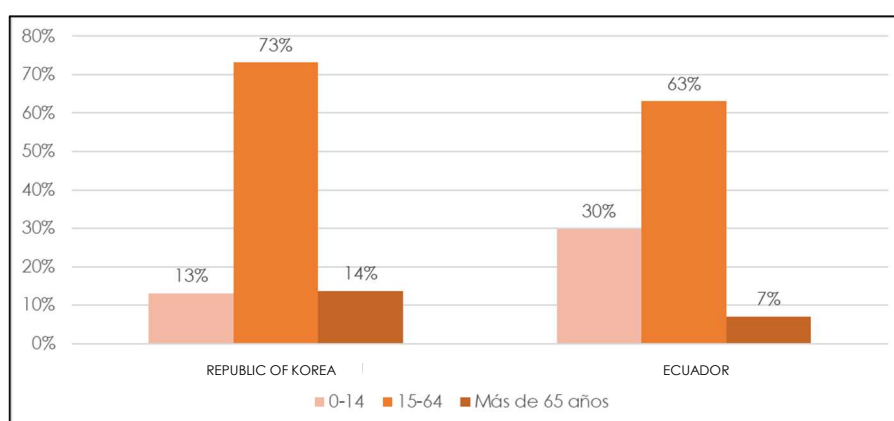


Author: Estrella, Juan

Source: Central Bank of Ecuador

Figure 6 shows that the population structure by age is very different in both countries. On the one hand, in the Republic of Korea a regressive population structure can be appreciated, characterized by an accumulation of the population in the range of intermediate ages (from 15 to 64 years), while 27% of the population is concentrated among the lower ranks (from 0 to 14 years old) and higher (from 65 years old and up).

Figure 6 Distribution of the population of Ecuador and the Republic of Korea by age.



Note: The data was calculated based on the forecasts of the two governments.

Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador and the National System of Indicators of Korea. (2018)

Regarding Ecuador, despite the tendency to accumulate population in the intermediate ranges, it can be seen that the concentration of population in the range of equal or less than 14 years is higher than the population of the same age range of Korea, equivalent to 30%, which shows that Ecuador in general has a young population. At the same time, concentration in the upper ranks is lower than in Korea.

For 2016, the unemployment rate in Ecuador was 5.2% of the EAP while in South Korea it was 3.7%. In both countries, the majority of the population is located in urban areas, which has led to the consolidation of cities as nuclei of labor activity. Thus, in Ecuador, 63% of the employed population was concentrated in the urban area, as in the Republic of Korea, where internal migration has caused a decrease in the rural population.

As for wages, both countries establish a basic salary. In the case of Ecuador, the basic remuneration established by the Ministry of Labor is 386 dollars, which increased in comparison with the year 2016 when the basic remuneration was

\$ 366. In the Korean case, the minimum hourly wage was set at 9,350 won (\$ 7.43). Although the hourly wage in Ecuador is higher than in South Korea, the cost of living is higher in the Asian country, so, according to the latest data from the World Labor Organization, the average income in Korea is \$ 2982.39, while in Ecuador is \$ 863.80.

3.1.3. Political division

Ecuador is a presidential republic, whose president is Lenin Moreno Garcés who heads the central government based in the capital: Quito.

Article 242 of the Ecuadorian Constitution establishes that, in order to establish a territorial order that allows the proper administration of the State, Ecuador will be divided into "regions, provinces, cantons and rural parishes". (Constitution of the Republic of Ecuador, 2008)

Ecuador is divided into 4 regions: coast, sierra, east and the Galapagos island region. Within these four regions there are 24 provinces, which, according to data from the National Institute of Statistics and Census of Ecuador, the most inhabited are the provinces of: Guayas, Pichincha, Manabí, Los Ríos, and Azuay. In the same way, 221 cantons are constituted.

In this way, a decentralized government system is proposed, based on the creation of "a set of political reforms that transfer resources, responsibilities or authority from the national level to the subnational levels of government" (SENPLADES, 2015, pág. 4). Within this process of decentralization, Decentralized Autonomous Governments are very important, because, according to the Organic Code of Territorial Organization, Autonomy and Decentralization, those entities have the functions of: "a) Legislation, regulation and control, b) Execution and administration; and, c) Citizen participation and social control." (National Assembly of Ecuador, 2010, p. 16)

On the other hand, the Republic of Korea is a presidential republic that has its capital in Seoul, head office of political power that is headed by President Moon Jae-in.

The South Korean state has a political-administrative structure that is composed of 9 provinces and 7 metropolitan cities, a city with special status, and a special autonomous city. According to (Choi, Choe, & Kim, 2012, page

24), South Korea divides the governance strategy into two levels. On the one hand, there are top-level local governments that act at the regional level and lower-level local governments that work at the municipal level. Article 117 of the South Korean Constitution states that these territories will have autonomy over issues concerning tax collection, construction of public works and other powers delegated by the central government.

3.2. Economy and management of foreign trade

3.2.1 Components of GDP

The Gross Domestic Product is an economic indicator that accounts for the value of the final goods and services produced within the borders of a State in a certain period. Authors such as (Callen, 2008, p. 48), affirm that in the calculation of GDP not only those goods and services that were destined for sale are accounted for, but also those services that correspond to the central government should be included.

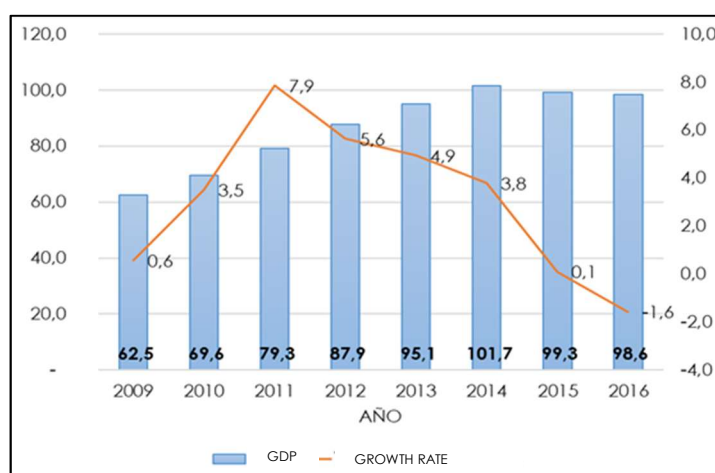
Economists make a distinction between real GDP and nominal GDP. While the first indicator measures production by establishing a base price for goods and services, the second determines the domestic product using the prices of the same year. In order to make a correct analysis, we will use the nominal GDP and the real growth rate as measures of comparison of the economic situation between Ecuador and South Korea.

In Figure 7, it can be seen that since 2009 the Ecuadorian economy grew in a non-sustained manner, due to Ecuador's dependence on fluctuations in the international market. The high prices oil and a fiscal policy that increased tax collection are the cause of Ecuador's economic growth in recent years. (Acosta, 2012, p. 327)

In 2009 there will be a slowdown in the economy caused by the global economic recession, which, although it generated great impact, there was no decrease in the economy as happened in Europe.

For the year 2010, the increase in investment in public works caused a growth of 7.9% (Acosta, 2012, p. 331) one of the highest growth rates in Latin America according to data of ECLAC.

Figure 7 Evolution of the nominal GDP of Ecuador and Real GDP growth rate



Note: The data was calculated based on the forecasts of the two governments.

Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador. (2018)

As of 2011, the Ecuadorian economy grew slower than in previous years due to variations in the price of a barrel of oil. In this way, in 2013, Ecuador grew 4.9%, a lower value compared to the 5.6% achieved in 2012. This trend was maintained during 2015, growing 0.1%, while in 2016 there was an economic contraction of -1.5%, caused by "the fall in the price of oil, the appreciation of the dollar, the earthquake of April 16, 2016, and legal contingencies that affected the performance of economic activity in that year" (Central Bank of Ecuador, 2016)

As for the composition of GDP, Table 1 shows the structure of national production according to the contribution made by each economic sector. In this way, during 2016 the activities linked to manufacturing production contributed the most to GDP. On the contrary, we see that the industry that represented the least was domestic services.

The importance of the agricultural sector for the economy is remarkable, since it contributes with 8.46% of GDP, which shows that the structure of agricultural production is important for the Ecuadorian economy.

In the industrial sector, activities related to the oil industry have reduced their contribution to GDP. As already mentioned, the low oil prices in 2015 are responsible for the oil industry having had a very low contribution to GDP. If we compare the data of the contribution of the oil industry to GDP during the

years 2014 and 2015, it can be seen that in 2014 the oil industry represented 11.08% of GDP and reached a growth rate of 6.6%, higher than the 2.9% of the year 2013.

Table 1 Distribution of GDP of Ecuador by industry (%)

Sector	2014	2015	2016
AGROPRODUCTIVE	7.98%	8.47%	8.46%
Agriculture, livestock, hunting and forestry	7.98%	8.47%	8.46%
FISHING	1.14%	0.99%	1.08%
Aquaculture and shrimp fishing	0.55%	0.45%	0.51%
Fishing (except shrimp)	0.59%	0.54%	0.58%
INDUSTRIAL	36.78%	31.87%	32.32%
Oil and mines	11.08%	4.72%	3.88%
Petroleum refining	0.28%	0.81%	0.97%
Manufacturing (except oil refining)	13.48%	13.61%	13.81%
Supply of electricity and water	1.23%	1.52%	1.62%
Building	10.71%	11.20%	12.04%
SERVICES	49.35%	51.37%	51.30%
Commerce	10.37%	10.29%	9.77%
Accommodation and food services	2.02%	2.10%	2.18%
Transport	4.26%	4.81%	5.21%
Mail and Communications	2.09%	2.00%	2.00%
Financial services activities	3.11%	3.19%	3.14%
Professional, technical and administrative activities	6.90%	6.94%	6.48%
Teaching and social and health services	7.70%	8.55%	8.81%
Public administration	6.57%	6.71%	6.95%
Domestic service	0.42%	0.44%	0.51%
Other services	5.91%	6.36%	6.25%
Other elements of GDP	4.75%	7.30%	6.83%

Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador. (2018)

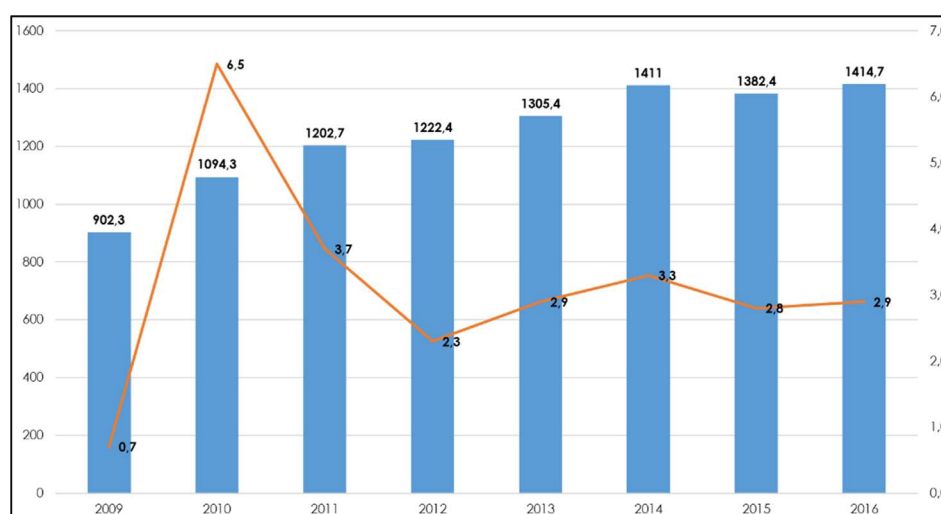
Likewise, the services sector is the sector that contributes the most to GDP, representing 52.11% of total GDP. However, it is important to mention that, within the services account, the activities carried out by the central

government in the areas of health, education, administrative tasks and defense are accounted for. These activities are equivalent to 34% of the total contribution made by the services sector to GDP, and shows that the aforementioned economic sector is still under development, since the rest of the services, which are mostly carried out by the private sector, contributed to the GDP an average of 4.16% in 2016.

As regards the Republic of Korea, Bank of Korea informations show that in 2016, the GDP reached 1.41 trillion dollars, which means that South Korea is the twelfth largest economy in the world.

Between the period 2009 and 2016, the growth of the economy has decreased. In 2009, economic growth was 0.7%. In that year, the global economic recession began. Unlike Ecuador, the effects of the crisis were more noticeable in the Asian country due to the reduction of the world demand of Korean exports. (Kim, 2009, pág. 279)

Figure 8 Evolution of nominal GDP of the Republic of Korea and Real GDP growth rate. (2009-2016)



Author: Estrella, Juan

Source: National System of Indicators of Korea. (2018)

In 2010, the South Korean economy grew 6.5% due to the correct management of economic policy by the central government, which according to Lall and Karalu (2011, pág. 6), increased the flow of money due to the decrease of interest rates on loans and the increase of investment in private factories that resulted in the creation of new jobs. However, this

situation changed between the years 2011 and 2012, when growth rates were reduced mainly due to the effect of a world economy that did recover and a national economy that suffered the effects of the reduction of foreign investment.

Between 2012 and 2016, there were few variations in South Korean GDP growth, whose growth rate ranged between 2.3% and 3.1%. This happened because of the global economic recovery, which increased demand in the international market.

The slow but sustained growth of South Korea contrasts with the variation of the Ecuadorian GDP, which between 2011 and 2015 suffered a lower growth in national production until reaching a state of economic contraction in 2016. This showed that the management of economic policy has been very different in two economies that depend on exports, but whose productive structure is different.

Table 2 shows the contribution made by the different economic sectors to the South Korean GDP. In this way, it can be seen that in 2016 the agricultural sector contributed to GDP with 2.1%. Thus, the agricultural sector is a weak sector within the economy of the Republic of Korea. On the other hand, in the same year, the contribution to the GDP made by the agricultural and fishing sector in Ecuador represented 8.46%, a value that shows how important these sectors are for the Ecuadorian economy. This leads to infer that the agricultural structure is more developed within Ecuador than in South Korea.

Table 2 Distribution of GDP of the Republic of Korea by industry. (%)

Sector	2014	2015	2016
Agriculture, forestry, and fishing	2.3%	2.3%	2.1%
Mining and derivatives	0.1%	0.1%	0.2%
Manufacture	30.2%	29.8%	29.5%
Gas, water and electricity supply	2.8%	3.2%	3.3%
Building	5%	5.2%	5.7%
Services	59.6%	59.4%	59.2%

Author: Estrella, Juan

Source: National System of Indicators of Korea. (2018)

In 2016, the manufacturing sector contributed to South Korean GDP with 29.5% of production. This sector includes activities related to the production of machinery, chemical products, metallic products, electronic products, etc.

Another comparable fact is the situation of the construction sector. In the case of Ecuador, this sector contributed to GDP with almost 12% in 2016, while in South Korea that sector contributed 5.7%. Although the difference between the contributions that construction makes in both countries is evident, it is important to evaluate the state of the construction sector in both countries.

According to data from the Central Bank of Ecuador, the growth rate of the economic sector was negative during 2016, reaching around -5% due to the application of policies that generated a certain level of mistrust to invest in construction, for example, the Goodwill Law. On the contrary, if we analyze the national figures of the Bank of Korea, we realize that the construction sector grew the most in 2016, reaching 7.1%. Fiscal incentives and the increase in residential investment were the main factors for the sector to grow. (Turner & Townsend, 2017, pág. 48)

The service sector is the industry that contributes the most to South Korean GDP, since in 2016 it accounted for 59% of total domestic production. During the last years, it has been one of the sectors whose growth trend is reduced year after year, going from a growth equivalent to 3.3% in 2014 to 2.5% in 2016.

This sector has as main components the activities related to wholesale and retail trade, as it happens in Ecuador. Another similarity is that the State's participation in the supply of services is almost as broad as in Ecuador, amounting to 28% of the total services accounted for in GDP.

3.2.2. Trade balance

Between 2009 and 2016, the Ecuadorian trade balance has a tendency to be negative. As Figure 9 shows, for the year 2009, imports exceeded exports, which resulted in a trade deficit. This happened mainly due to the fall in international demand. Although there was a reduction in exports and imports, the most affected export products were industrialized goods due to the decrease in their exports, while raw materials maintained a constant demand.

Because of this, the growth of exports as well as imports reached a rate of -26.33% and -20.52% respectively.

This tendency to obtain a deficit continued in the 2010-2015 period. In these years, the average of exports as a percentage of GDP stood at 25%, while, on average, exports were equivalent to 26% of the Gross Domestic Product.

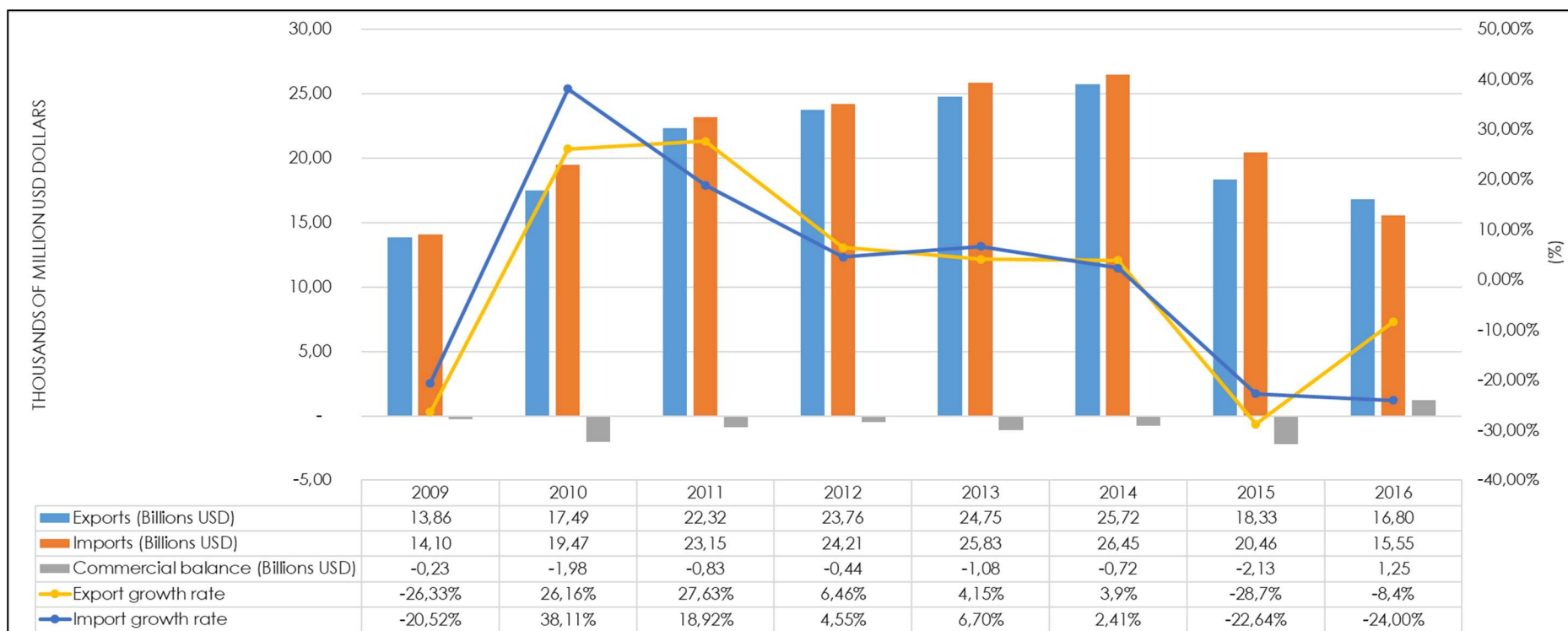
Within this period, the amounts of both exports and imports grew gradually, due to the increase in demand for oil whose price grew greatly. Thus, between 2010 and 2014, the average rate of growth of exports was 13.67% while the average rate of imports was 14.15%.

The aforementioned data and balances of the trade balance show that the trade dynamics within these years did not change if we compare them with the changes of the economy prior to dollarization, in which, while increasing income, the expense increased.

For the year 2015, there was a reduction in exports and imports, which caused the contraction of the variation rate of exported and imported products, which reached -28.7% and -22.64%. This situation was caused by the fall in oil prices worldwide while the dollar went through a process of appreciation that had a negative effect on the purchasing power of the Ecuadorian trading partners.

According to data from the Central Bank of Ecuador, in 2016 the main exports were raw materials such as crude oil (32%), shrimp (15.89%), bananas (15,875), other seafood (6%) , and petroleum derivatives (4%). On the contrary, imports were industrialized goods whose added value was high, highlighting petroleum oils (8%), products generated from the distillation of coal tars (6%), dosed medicines (4%) and automobiles (3%).

Figure 9 Evolution of the Commercial Balance of Ecuador



Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador.
(2018)

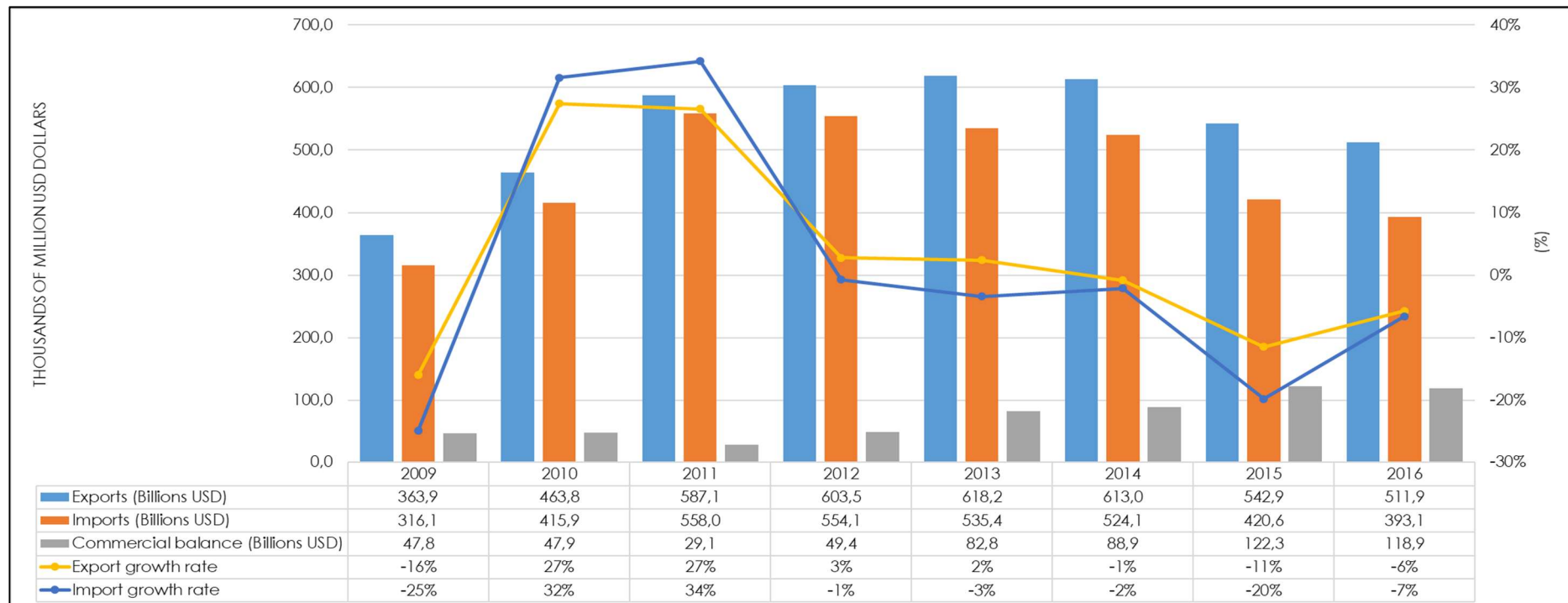
With regard to the trade balance of South Korea, the data provided by the Bank of Korea show that during the period 2009-2016, the trade balance has been positive, proving the strength of the export sector within this economy.

Figure 10 shows that for the year 2009, the global economic crisis also affected the South Korean country, whose exports stopped growing for that year. When we compared the variation rates of exports between Ecuador and South Korea in 2009, we found important information. On the one hand, Ecuadorian exports decreased by 26.33% while, in South Korea, the decrease was 16%, which is a sign that the Republic of Korea, whose economy tends to openness, has a productive-export structure better prepared than Ecuador to cope with the fluctuations of the international market.

Between 2010 and 2011, exports and imports increased. Comparing with Ecuador, the exports of both countries grew at the same level but in the case of imports, Ecuador had a reduction in imports while South Korea increased its imports.

Between 2012 and 2014, the growth of South Korea's trade variables fell, followed by negative growth rates during 2015 and 2016. Ecuador went through a similar situation, especially in 2015, when both countries experienced negative growth. This situation was more noticeable in the case of Ecuador, reaching a decrease of 28.7%. Thus, the analysis of South Korean trade dynamics showed that if exports decreased, imports followed the same dynamics.

Figure 10 Evolution of the Trade Balance of the Republic of Korea



Author: Estrella, Juan

Source: National System of Indicators of Korea. (2018)

For 2016, the main exports of the Republic of Korea in the last year were goods with a high level of innovation: integrated electronic circuits representing 11% of total exports, automobiles for transport, concentrating 8% of exports, followed by refined petroleum oils equivalent to 5% of exports, same percentage as ship exports. Analyzing the data of the Korean International Trade Association (KITA), we find that the Republic of Korea imports crude oil that represents 10% of the basket of imports, followed by industrial technology that represents 7%. Petroleum gases that represent 4% of imports. Finally, we find in the list foreign vehicles that represent 2%.

3.2.3. Commercial Partners

Table 3 Ecuadorian exports by destination. 2009-2016

Country	Distribución de las exportaciones por país (%)
USA	40,50%
Peru	7,31%
Chile	6,98%
Colombia	4,30%
Venezuela	3,38%
Spain	2,52%
Others	35%

Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador. (2018)

Between 2009 and 2016, the United States was the main destination for Ecuadorian exports. In this period, 40.5% of total exports arrived in the United States, which shows a certain level of dependence on that country. As regional partners, 14% of exports were destined to Peru and Chile, becoming the main partners of Ecuador in South America, and leaving behind Colombia and Venezuela, which, in the first years, imported \$700 million from Ecuador, but that after 2012, this value was reduced due to the economic situation, in the case of Venezuela, and politics, in the case of Colombia. In this way, between 2009 and 2016, we see that only five countries concentrated 65% of Ecuadorian exports.

Table 4 Exports of Ecuador by country of destination.
USD FOB

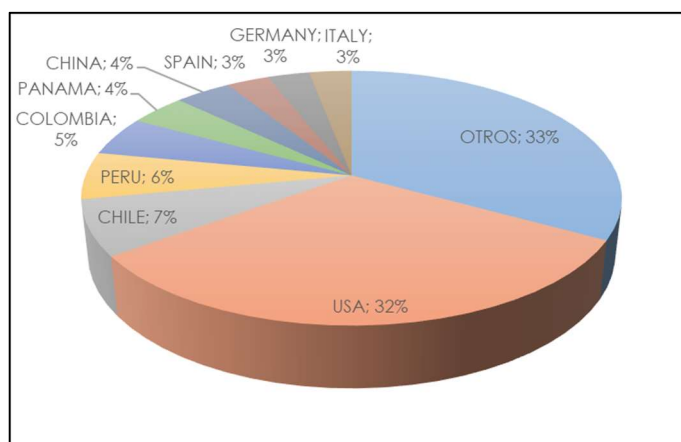
	2014		2015		2016	
Country	Thousands of Millions (USD)	%	Thousands of Millions (USD)	%	Thousands of Millions (USD)	%
USA	11.24	44%	7.23	39%	5.44	32%
Chile	2.33	9%	1.14	6%	1.15	7%
Venezuela	0.56	2%	0.33	2%	0.14	1%
Colombia	0.95	4%	0.78	4%	0.81	5%
Peru	1.58	6%	0.93	5%	0.93	6%
Others	9.06	35%	7.92	43%	8.32	50%

Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador. (2018)

In Table 4 it can be seen that in the last four years of the study the United States reduces the level of exports, while remaining a leader. This is mainly due to the emergence of new business partners such as Panama or China, which buy Ecuadorian raw materials. Thus, in Figure 11, it can be seen that within the last year of study, exports to the United States decreased, equivalent to 32% of total exports, which is compensated by exports to non-traditional countries such as Panama.

Figure 11 Percentage distribution of exports by country of destination.



Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador. (2018)

Regarding imports by country of origin, between 2009 and 2016, 28% of the total average exported by Ecuador came from the United States.

Table 5 Ecuador's imports by country of origin.

2009 -2016

Country	Distribution of imports by country of origin (%)
USA	28%
Spain	11%
Brazil	9%
Japan	6%
Mexico	5%
UK	4%
Others	34%

Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador. (2018)

It increased the number of countries that exported to Ecuador due to the new needs of the Ecuadorian consumer. In this way, we see in Table 6 that the partners that sold more to Ecuador varied depending on the year. However, within the last years of the study, the presence of Brazil stands out, which in the last three years of the study was one of the five countries that most exported to Ecuador. Likewise, the appearance of Panama and China as countries of origin of imports is remarkable.

Table 6 Ecuadorian imports by country of origin.

2014-2016

USD-FOB

2014			2015			2016		
Country	Thousands of Millions (USD)	%	Country	Thousands of Millions (USD)	%	Country	Thousands of Millions (USD)	%
USA	8,4	32%	USA	5,5	27%	USA	3,9	25%
Italy	3,4	13%	Chile	3,1	15%	China	2,4	16%
Panama	2,1	8%	Venezuela	1,7	8%	Colombia	1,4	9%
Germany	1,4	5%	Brazil	1,1	6%	Panama	0,9	6%
Spain	1,3	5%	Germany	1,0	5%	Peru	0,7	4%
Brazil	1,0	4%	Hong Kong	0,8	4%	Brazil	0,6	4%

Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador.

In this way, in 2016, the largest number of imports that Ecuador made came from the United States and China, followed by traditional partners such as Colombia and Peru, and others not as traditional as Panama or Brazil.

In this way, in 2016, the largest number of imports that Ecuador made came from the United States and China, followed by traditional partners such as Colombia and Peru, and others not as traditional as Panama or Brazil.

With regard to the Republic of Korea, between the period 2009 and 2016, it had as main importing commercial partners to China and the United States, which concentrated an average of 37% of the total of Korean exports.

Far behind the list is Japan, Hong Kong, Vietnam and Singapore, showing that Korean products were distributed in the main markets of Southeast Asia. In this way, in 2016, Korean exports, mostly, were concentrated in the People's Republic of China.

Table 7 Exports of the Republic of Korea by country of destination.
2009-2016

Country	Distribution of exports by country (%)
China	25%
USA	12%
Japan	6%
Hong Kong	6%
Vietnam	4%
Singapore	4%
Other countries	45%

Author: Estrella, Juan

Source: National System of Indicators of Korea. (2018)

In Table 7, we see that the Republic of Korea, in terms of the percentage of exports that its main partner concentrates, is less dependent than Ecuador, since China concentrates 25% of Korean exports, while the percentage of exports for Ecuador to the United States exceeds 30%. In addition, if you look

at Table 8, you can compare the percentage of exports between the first and second commercial partners. Thus, it can be seen that, while the United States concentrates 32% of exports, the next partner on the list only concentrates only 7%, becoming a threat to Ecuador since it depends on changes in the US economy.

On the contrary, in the case of the Republic of Korea, in the last year, China concentrates 24% of the total exported, while the second trading partner concentrates 13%, showing that South Korea has a more varied demand that helps to reduce the risk of dependence of economic fluctuations.

Table 8 Exports of the Republic of Korea by country of origin.

2014 -2016

USD FOB

	2014		2015		2016	
	Thousands of Millions (USD)	%	Thousands of Millions (USD)	%	Thousands of Millions (USD)	%
China	145.3	24%	137.1	25%	124.4	24%
Hong Kong	27.3	4%	30.4	6%	32.8	6%
Japan	32.2	5%	25.6	5%	24.4	5%
Singapore	23.7	4%	15.0	3%	12.5	2%
USA	70.3	11%	69.8	13%	66.5	13%
Vietnam	22.4	4%	27.8	5%	32.6	6%
Others	251.6	48%	221.0	44%	202.3	43%

Author: Estrella, Juan

Source: National System of Indicators of Korea. (2018)

China is also the main origin of South Korea's imports. In the period 2009-2016, an average of 18% of the total imported by South Korea came from the People's Republic of China. This country is followed by others such as the United States, Germany, Japan or Australia. These partners are the ones that sell the most to South Korea. In Tables 9 and 10 it can be seen that, in recent years, China, Australia, Germany, Japan, Saudi Arabia, and the United States have established themselves as the main suppliers of products for South Korea,

since they concentrate the 57 % of total imports, a trend that has been growing since 2014.

Table 9 Imports of the Republic of Korea by country of origin.

2009 -2016

Country	Distribution of imports by country of origin (%)
China	18%
Japan	12%
USA	9%
Saudi Arabia	6%
Australia	4%
Germany	4%
Others	47%

Author: Estrella, Juan

Source: National System of Indicators of Korea. (2018)

Table 10 Imports of the Republic of Korea by country of origin.

2014-2016.

USD-FOB

	2014		2015		2016	
	Thousands of Millions (USD)	%	Thousands of Millions (USD)	%	Thousands of Millions (USD)	%
Australia	20.4	4%	16.4	4%	15.2	4%
China	90.1	17%	90.3	21%	87.0	22%
Germany	21.3	4%	21.0	5%	18.9	5%
Japan	53.8	10%	45.9	11%	47.5	12%
Saudi Arabia	36.7	7%	19.6	5%	15.7	4%
USA	45.3	9%	44.0	10%	43.2	11%
Others	258.0	49%	199.4	44%	178.7	55%

Author: Estrella, Juan

Source: National System of Indicators of Korea. (2018)

3.3. Foreign policy

In 2007, Ecuador entered a new dynamic of foreign policy management, which until that year had been influenced by the presence of the United States.

After the victory of the candidate of the Alianza País movement, Rafael Correa Delgado, in the presidential elections, Ecuador, along with the other countries of the region, enters a process in which its foreign policy, based on the ideology of the "socialism of the 21st century", seeks to stop the advance of neoliberal ideas. To this end, the state structure was strengthened through the creation of a Constituent Assembly that led to the elaboration of the 2008 Constitution. In the new constitution, the President is given the power to define foreign policy, as well as the principles that must be followed by Ecuador in the international arena.

In this way, Ecuador established relations with emerging regional and international powers, mainly Brazil and China.

In the case of Brazil, the alliance took place within the framework of regional integration. The maximum expression of this attempt of Latin American integrationism was the constitution of the Union of South American Nations or UNASUR, that was born to strengthen the bonds between the countries of South America and to become the block antagonistic to the Organization of American States (OAS), that, according to the founders of UNASUR, was an organization whose actions were conditioned by the mandates of the United States.

On the other hand, Ecuador has constantly shown its willingness to move away from the United States. For this, relations with the People's Republic of China were created. This relationship is notable for the Ecuadorian interest in finding sources of financing for public works promoted by the central government. In the last ten years, Ecuador has also tried to strengthen its relations with the most important economic blocs, including the European Union.

As regards the foreign policy of South Korea, this has had as one of the central issues the relations with the Democratic People's Republic of Korea, which in order to perpetuate the Kim dynasty in power, promoted a nuclear program that has been condemned by the entire international community. This

constant threat has been the cause for South Korea to strengthen its relationship with the United States.

By adopting a trend towards openness, South Korea maintains relations with most countries in the world.

Relations with the European Union are developed under the framework of the Strategic Partnership and the Free Trade Agreement, which seeks to strengthen relations with Europe. In the same way, South Korea maintains relations with the People's Republic of China, even after the problem due to the support of this country to the government of North Korea.

Conclusions

The objective of this chapter was to carry out a process of analysis of differences and similarities. For this, certain variables were taken into account, such as demography, economic and commercial indicators.

In the geographical scope, both countries are located on different continents. However, the first difference arises from its location since, while Ecuador has a territory that can be planted, the composition of the South Korean soil makes the agricultural sector increasingly weak in the Republic of Korea, while in Ecuador is a key sector for the development of the country. On the demographic level, it can be observed that in Ecuador there are more women than men, while in South Korea, this relationship is the reverse. In the same way, the population structure draws attention, since Ecuador has a younger population, while South Korea has already entered the aging process.

In the economic field, a greater number of differences were found. While the Asian country is one of the largest economies in the world, Ecuador is still in the phase of economic development. While the Republic of Korea has already consolidated an economy in which the industrial and service sectors are strong, Ecuador has as its main sector the manufacturing sector, which contributes the most to GDP with 13%. In the commercial sphere, Ecuador has a strong deficit in its trade balance due to the growth of imports and a strong dependence on the US market, which has concentrated an average of 40% of exports in the last 10 years. Meanwhile, the Republic of Korea has China as

its main trading partner. However, there is not so much dependence on that market because the portfolio of partners is diversified.

CHAPTER IV ANALYSIS OF COMMERCIAL RELATIONS BETWEEN ECUADOR AND THE REPUBLIC OF KOREA. PERIOD 2009-2016.

Introduction

This chapter has an analytical purpose, pretending to know how the commercial relations between Ecuador and the Republic of Korea have been during the period 2009-2016, having as starting point the analysis of the relationship determining the agreements that govern the interactions between both States, its feasibility, and the current status of the negotiations of the Strategic Economic Cooperation Agreement, which seeks to deepen the relationship between the two countries.

In the second part, the bilateral trade balance will be analyzed, taking into account the exports and imports made by Ecuador during a certain period of time and then determining the characteristics of the relationship, trade balances, variation rates, etc. After this, an analysis of the main products that Ecuador exports to South Korea will be carried out. This will be done by dividing the study period into four sub-periods, helping to understand which products each country requires from the other.

Finally, the conclusions drawn by the tabulated and interpreted information will be established.

4.1. Trade agreements between the Republic of Ecuador and the Republic of Korea

Currently, trade relations between Ecuador and the Republic of Korea are conducted under the framework of the multilateral system of the World Trade Organization, which determines the patterns of behavior between States when trading with each other. The pillars of this system are the principles of the most favored nation and national treatment. While the first establishes a rule of non-discrimination in the treatment between countries when establishing exemptions or commercial privileges, the second establishes that foreign merchandise must be treated in the same way as domestic merchandise.

Under the power granted by the WTO to the States to create regional trade agreements, in 1989, within the framework of the Group of 77, Ecuador together with another seventy-six States signed the "Global System of Trade Preferences among Developing Countries" by which the States create a regime of tariff and non-tariff preferences that aims to achieve economic integration and development among the members. These business advantages benefit the developing countries, including South Korea.

Although this agreement creates a series of conditions that generates a more fluid exchange of goods, its efficiency is questionable, since it is the only trade agreement in force between Ecuador and the Republic of Korea. In reality, this agreement has helped to create a trade gap between exports and imports that benefits only the South Korean state.

4.1.2. Negotiating Rounds of the Strategic Economic Cooperation Agreement

In recent years, the governments of Ecuador and South Korea have signed agreements in different areas, such as the "Agreement to avoid double taxation and tax evasion with respect to income taxes", or the transfer program of knowledge "Knowledge Sharing Program". However, in commercial matters, there is no bilateral agreement, as in the case of Colombia or Peru, countries that have signed free trade agreements with the Republic of Korea.

Considering this, since 2016 the governments of both countries have established negotiation rounds in order to work on the "Strategic Agreement on Economic Cooperation". According to the communications from the Ministry of Foreign Trade of Ecuador, the objective of this agreement is to open up Ecuadorian products within the South Korean market and at the same time to increase the level of investment in Ecuador.

Unlike a free trade agreement, this agreement takes into account the realities and economic contexts of both countries, in order to protect the nation that is most at risk of suffering a loss: Ecuador.

4.2. Analysis of the bilateral trade balance between Ecuador and the Republic of Korea

Trade balance

Within the period 2009-2016, Ecuador has been able to establish new relations with other States in order to diversify its commercial partners. Although trade relations with the Republic of Korea date back to the early 1960s, they have intensified in recent years.

In Table 11 it can be seen that, during the period studied, the trade balance between both countries shows a deficit balance, caused by an increase in imports while exports were reduced. For the period 2010-2012, there is an increase in exports, which, as explained (Borsic, Benítez, & García, 2016, pág. 60), has its origin in the increase in the prices of oil and non-oil products internationally, and not in an increase in the exportable supply. In addition, since 2010, imports from the Republic of Korea to Ecuador tend to grow.

Table 11 Evolution of the Trade Balance between Ecuador and the Republic of Korea from 2009 to 2016. Thousands USD FOB

Year Exports	Exports	Imports	Trade balance	Growth rate exports	Growth rate Imports
2009	6,492.48	480,545.04	-474,052.56	-69%	-23%
2010	9,213.19	826,676.84	-817,463.65	42%	72%
2011	29,091.42	861,895.37	-832,803.95	216%	4%
2012	40,036.56	947,859.47	-907,822.91	38%	10%
2013	45,013.61	982,759.89	-937,746.29	12%	4%
2014	57,186.68	881,324.76	-824,138.08	27%	-10%
2015	173,027.71	780,717.52	-607,689.81	203%	-11%
2016	82,465.51	523,035.31	-440,569.81	-52%	-33%

Author: Estrella, Juan

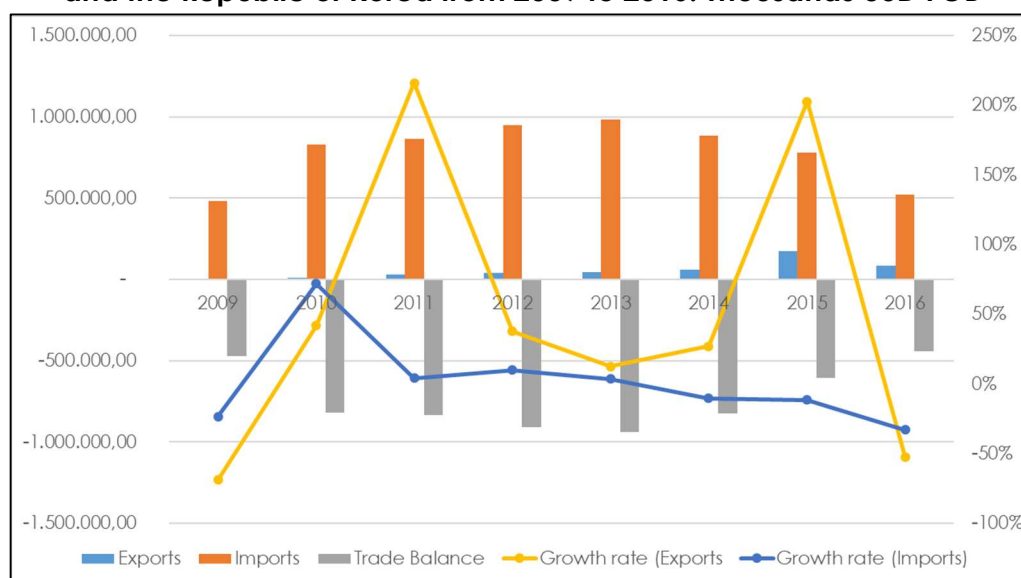
Source: National System of Indicators of Korea. (2018)

Between 2013 and 2014, Ecuadorian exports continued to grow, although not at the same levels. The growth rate of imports in 2013 and 2014 stood at 4% and -10% respectively, showing a decrease, which on the other hand did not affect the result of the trade balance. In Table 11, it is shown that in the year 2015 Ecuadorian exports grew up to 203%, making this period one of the

periods of greatest growth in the level of income for exports to South Korea. The cause of this growth was a sporadic sale of oil in large volume.

For the last year of the studied period, there was a decrease in both exports and imports, because of the externalities that affected the prices of Ecuadorian products. Both the data in Table 11 and Figure 12 show how the components of the trade balance have varied. Ecuadorian exports were the items that fluctuated the most, while imports had a more constant flow.

Figure 12 Evolution of the component of the Trade Balance between Ecuador and the Republic of Korea from 2009 to 2016. Thousands USD FOB

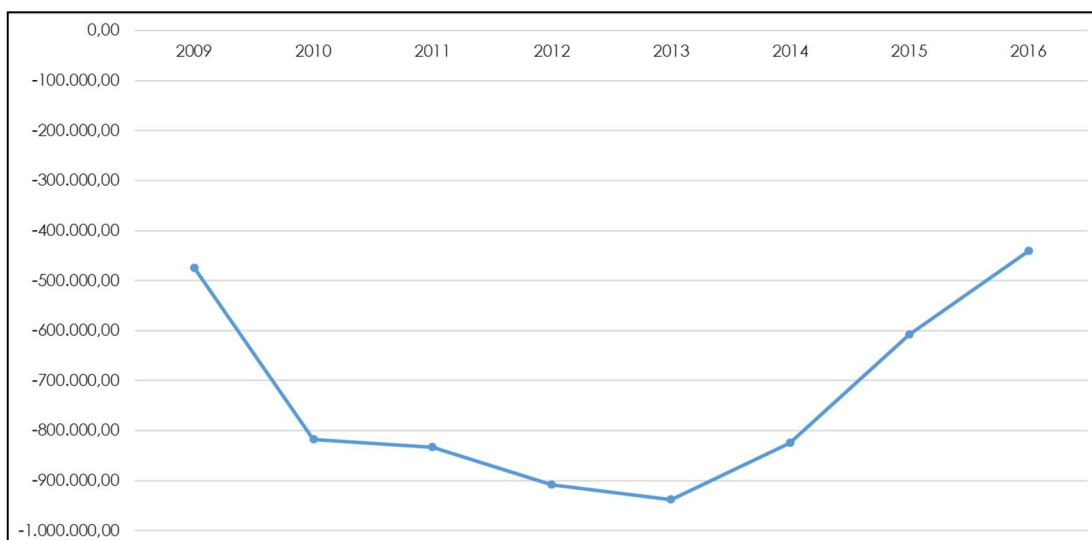


Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador. (2018)

As for the state of the trade balance, it was already mentioned that during the period studied the balance has been negative, since imports made by Ecuador have been higher than exports. Figure 13 shows how the negative balance has been changing, showing a tendency to decrease as a result of the increase in exports, especially in the period 2009-2013, while it has been reduced in the last four years as a result of the reduction in imports at the same time that exports grew.

Figure 13 Evolution of the Trade Balance between Ecuador and the Republic of Korea from 2009 to 2016 Thousands USD FOB



Author: Estrella, Juan

Source: Monthly Statistical Information System of the Central Bank of Ecuador. (2018)

4.2.1. Main export products from Ecuador to the Republic of Korea

As I mentioned in previous chapters, Ecuador has a primary export production structure that depends on raw materials for export, such as oil. Within the period 2009-2016, Ecuadorian exports to the Republic of Korea were equivalent to an average of 0.3% of the total exported, which shows that trade relations with the South Korean market can still be developed to obtain a positive trade balance.

One of the factors that can contribute to achieving this objective is the diversification of the exportable offer, which during the period 2009-2016 has not varied in the list of main products. In this way, and in order to perform a more detailed analysis of the evolution of the products that Ecuador has exported the most to South Korea, we will proceed to divide exports by product in four different periods.

Period 2009-2012

Table 12 Main export products from Ecuador to the Republic of Korea. Period 2009-2012.

Thousands USD FOB

Product Code	PRODUCT	2009	2010	2011	2012
306139100	Shrimp	465.31	87.51	11,771.48	27,040.86
7404000000	Copper waste and scrap	2,327.19	3,882.31	6,836.91	5,891.72
304299090	Other: (Flatfish: Pleuronectidae, Bothidae, Cynoglossidae, Soleidae, Scophthalmidae and Citharidae)	568.2	681.51	685.47	1,796.20
2301201100	Flours, meals and pellets, of fish or of crustaceans, mollusks or other aquatic invertebrates with a fat content exceeding 2% by weight	0	216.11	2,505.37	659.34
1801001900	OTHERS	421.54	784.85	813.05	708.21
7602000000	Waste and scrap of aluminum	347.62	826.8	905.72	629.59
9606301000	Forms for buttons and other parts of buttons, sketches of plastic or tagua buttons (vegetable ivory)	32.65	173.94	861.99	532.39

303790090	OTHERS	176.72	50.1	1,044.73	-
4707300000	Mechanical pulp paper or paperboard	157.54	502.21	521.34	94.5
803001200	Bananas or fresh bananas type «Cavendish Valery»	30.16	406.82	600.99	101.81
7408210000	Wire made of copper-zinc (brass)	523.52	391.83	-	-

Author: Estrella, Juan

Source: Foreign Trade Information System of the Central Bank of Ecuador. (2018)

In the midst of an economic crisis, trade relations between Ecuador and the Republic of Korea gained strength. Independent of the consequences, the South Korean country acquired a greater amount of raw materials. Thus began a phase of opening and consolidating Ecuadorian products in the South Korean market.

In Table 13, we proceeded to classify the main tariff items that registered the highest export earnings to the Republic of Korea between the 2009-2012 periods.

This period was characterized by the high level of exports of products with low technological development in their production process. Thus, shrimp stood out as the main export product to South Korea, since its sales always grew from 67% in 2010 to more than 1000% in 2011. Thus, the product generated the most revenue in exports to South Korea. Other products such as flours generated from seafood are also relevant. The growth of the export of Cavendish Valery type bananas is important because the level of export grew in 2010 until it stabilized in 2012. There were certain products related to metallurgy that gained presence in the exportable supply, since many of these wastes are reused in the productive processes of technology generation in South Korean factories.

Period 2013-2016

For this period, exports such as shrimp were consolidated, and other types of shellfish such as prawns were exported. Thus, tariff item 0306 corresponding to "Crustaceans and derived products" constituted the item that generated a higher level of income among traditional products exported to the Republic of Korea. It is also important to mention that the reason for the growth of total exports in 2015 was the export of crude oil, which constitutes a sporadic sale of a product that was not exported again in the same quantities to South Korea.

It can be seen that, during the years 2013 and 2014, the main exports tend to grow in revenues, however, in 2015, there is a reduction in exports of products such as coffee and whole prawns, while products like the bananas that had stopped growing in 2013 and 2014, boost their sales abroad.

Table 13 Main export products from Ecuador to the Republic of Korea.
Period 2013-2016. Thousands USD FOB.

Product Code	PRODUCT	2013	2014	2015	2016
0306179900	Other (shrimp, prawns, and other frozen decapods)	21,571.7	28,083.4	36,924.5	32,620.1
2709000000	Crude petroleum or bituminous mineral oils.				110,885.3
7404000000	Waste and scrap, copper.	4,564.7	9,289.9	10,504.7	14,815.3
0306171900	Others	6,495.4	5,132.1	4,028.3	13,483.8
0803901100	Bananas or fresh bananas type «Cavendish Valery»	203.4	36.3	3,153.6	7,854.1
0306160000	Shrimps and prawns and other decapods Batatia of cold water	3,271.2	4,211.3	986.9	936.4

0306171100	Whole prawns (Family genera Penalty)	1,654.0	2,994.6	481.8	1,521.1
7602000000	Waste and scrap of aluminum.	524.2	2,336.6	1,069.2	262.8
1801001900	Others	1,039.2	1,079.3	800.6	580.8
2101110000	Extracts, essences and concentrates of coffee, tea or yerba mate	652.1	204.9	46.4	291.8

Author: Estrella, Juan

Source: Foreign Trade Information System of the Central Bank of Ecuador. (2018)

After analyzing the previous data, it can be said that the South Korean market is willing to buy from Ecuador:

1. Shrimp
2. Prawns,
3. Raw materials for industrial use (copper and aluminum.
4. Fruits
5. Coffee
6. Certain types of fuels and oils not refined.

4.2.2. Main export products from the Republic of Korea to Ecuador

The Republic of Korea is a country whose productive structure tends to the elaboration of goods with high added value and then export them. In this way, thanks to its high level of commercial openness, South Korea is one of the leading exporters of technology products in the world. In this context, we will proceed to analyze which products of South Korean origin are most imported into Ecuador.

Period 2009-2012

**Table 14 Main export products from the Republic of Korea to Ecuador.
Period 2009-2012. Thousands USD FOB.**

Product Code	PRODUCT	2009	2010	2011	2012
8703239090	Other: (With a displacement exceeding 1,500 cc but not exceeding 3,000 cc)	77684.11	106735.31	115736.57	101414.29
8703239080	Vehicles in CKD with a cylinder capacity exceeding 1,500 cc but not exceeding 3,000 cc)	71602.49	104951.09	91641.05	43652.04
8502131000	Alternating current		134679.24	105764.46	4871.99
8703229080	CKD (With a displacement exceeding 1,000 cc but not exceeding 1,500 cc)	35686.28	67474.41	59064.34	63089.31
8703229090	OTHERS (With a displacement exceeding 1,000 cc but not exceeding 1,500 cc)	18732.62	53182.33	34441.41	20510.68
8702101090	Other vehicles with only one compression-ignition internal combustion	5468.65	19215.09	24112.75	13998.46

	piston engine (diesel or semi- diesel)				
8450200000	Machines of unitary capacity, expressed in weight of dry clothes, superior to 10 kg	9382.09	13092.55	20468.37	18423.03
8429520000	Machines whose superstructure can rotate 360 °	17221.94	11056.18	12308.96	18437.04
8703210090	Other: vehicles with a cylinder capacity less than or equal to 1,000 cm ³ :	8345.19	18999.24	12903.85	16878.91
2917320000	ORTOFTALATOS DIOCTILO	9051.62	11659.04	17022.57	17130.44

Author: Estrella, Juan

Source: Foreign Trade Information System of the Central Bank of Ecuador. (2018)

Analyzing Table 14 we observe the strength of the South Korean market. Thanks to innovation processes, South Korea can offer consumer goods to countries such as Ecuador, where there is a lack of innovative production processes. Thus, in this period imports of vehicles for the transport of people are noteworthy, above all, those that have a motor superior to 1500 CC. These had a high growth of the imports level, growing 37% for the year 2010. Also, the products included in the codes 8450200000 and 8429520000 are important. They are usually washing machines that constitute goods with high demand in the national market.

Period 2013-2016

Table 15 Main export products from the Republic of Korea to Ecuador.

Period 2013-2016.
Thousands USD FOB

Product Code	PRODUCT	2013	2014	2015	2016
2710192131	With a sulfur content less than or equal to 50	142.404,9	133.211,1	99.679,0	-
8703239080	CKD	45.068,8	67.053,3	67.293,5	75.703,3
8703239090	Others	91.118,2	73.347,1	42.782,2	37.003,6
8703229080	CKD	73.570,2	47.625,0	43.179,2	17.632,6
2707501000	Solvent naphtha	32.160,1	-	58.543,9	-
8703229090	Others	14.659,1	19.323,5	13.086,5	28.342,8
3901200000	Polyethylene with a density greater than or equal to 0.94	23.914,2	23.058,7	11.062,9	3.283,4
8429520000	Machines whose superstructure can rotate 360 °	28.829,2	17.535,8	3.973,3	2.022,8
2917320000	Diocetyl orthophthalates	12.446,8	15.001,4	14.188,2	8.869,5
3901100000	Polyethylene density less than 0.94	12.391,2	17.658,8	16.433,1	3.998,3

Author: Estrella, Juan

Source: Foreign Trade Information System of the Central Bank of Ecuador. (2018)

During this period, tariff barriers were established, promoted by former President Rafael Correa. The effect was clear, since imports of vehicles were reduced due to the quotas imposed on the importing sector. In this way,

vehicles imported in parts take relevance for their assembly in the national territory.

Likewise, other imports were reduced, especially from 2014 to 2016, where the only item that maintained continuity between the first period and the second studied was the "Machines whose superstructure can rotate 360 °", which did not stop feeling the impact of trade barriers, since between 2013 and 2016 suffered a reduction of imports equivalent to 100%.

In this way it can be said that the Ecuadorian consumer is willing to acquire goods imported from the Republic of Korea that are extensive in technological factors such as: vehicles, technological components and household items such as washing machines.

Conclusion

The commercial relationship between Ecuador and the Republic of Korea is marked by the absence of an agreement on commercial matters that encourages the exchange of goods. Although, free trade will never be a viable option for an economy with the characteristics of Ecuador. Likewise, a protectionist policy does not offer solutions, since, as it has been observed, the commercial policy of the years 2009 and 2016 has prevented Ecuador from benefiting from a commercial relationship that takes into account the realities of each country and with the proper rules.

The statistical data of the Central Bank of Ecuador shows that, between Ecuador and the Republic of Korea there has been a trade balance whose balance is negative. The growth of exports and imports made by Ecuador in that period has been affected by market fluctuations. It has been possible to highlight the variation of the assets of both the oil and non-oil balance. This factor has helped to mitigate the effect of imports that grew with greater stability than exports to South Korea.

Finally, those products included in the tariff items of goods whose production does not require a wide specialization as is the case of cocoa, coffee or shrimp are the main products that Ecuador exports to South Korea and that generate more export income towards the aforementioned country. On the contrary,

the Republic of Korea exports products whose level of specialization and use of technology is very high, such as automobiles and washing machines.

CHAPTER V ANALYSIS AND PROPOSAL TO IMPROVE ECUADORIAN EXPORTS TOWARDS THE REPUBLIC OF KOREA

Introduction

This chapter aims to develop an analysis of the environment that allows us to know the potential of Ecuador.

This chapter is made up of two parts. First, there is the analytical part, in which a PEST analysis, SWOT analysis and analysis of competitive advantages will be carried out. This stage will serve to determine those factors that influence trade relations and that can be used in the future to change the situation of the trade balance with countries such as the Republic of Korea.

In the second part, a proposal will be made based on the competitive advantages determined in the previous analyzes, and the information obtained in previous chapters. To do this, a process improvement matrix will be used, which will serve to determine those activities that must be changed, establishing a possible solution.

Finally, the conclusions of the chapter will be made, where the discoveries that the chapter has made will be synthesized.

5.1. PEST Analysis

The PEST analysis is a tool to investigate the environment that tries to determine the situation of certain elements in order to evaluate their impact on an activity. These elements are known as factors, which include the political, economic, social and technological aspects. In the present analysis, we will proceed to analyze how these factors affect trade between Ecuador and the Republic of Korea.

Political aspects of Ecuador

Since 2007, the commercial trend of Ecuador has followed the protectionist guidelines with the aim of boosting exports. This idea, established by the central government in the different national development plans, has guided the decision-making process related to commercial activity.

Thus, the creation of a structure that contributes to the development of the export sector by offering benefits to commercial activities has been promoted. Currently, this structure is based on the guidelines and objectives embodied in the Constitution and, mainly, in the National Development Plan "Toda una vida" 2017-2021, which proposes the idea of abandoning the primary export production model through the increase of investment and the use of the capacities that Ecuador has. In this way, the central government proposes the idea of a new commercial system based on "the diversification, differentiation and breadth of the exportable supply; the opening of new markets and their diversification (taking into account non-traditional and alternative markets); the regional markets" (SENPLADES, 2017, p. 76)

This commercial model is supported by a wide range of organic laws that offer exemptions from taxes related to exports, such as the Organic Law of the Internal Tax Regime or the Reform Law for Tax Equity. Likewise, since 2010, the concept of facilitation in commercial and customs processes has become relevant, as has the Promotion Project for the Exporting Sector that offers incentives to carry out non-traditional exports. In order to strengthen the scheme of laws that promote exports, the Organic Law for Productive Development, Attraction of Investments, Employment Generation, and Stability and Fiscal Balance has been developed, adding new incentives to investments such as the refund of the Currency Exit Tax for exporters or "the additional deduction of commercial promotion expenses [that] may be up to 100% of the total value of the costs and expenses destined for promotion and advertising" (Servicio de Rentas Internas, 2018)

Economic aspects of Ecuador

According to data published by the Central Bank of Ecuador, Ecuador's GDP grew by 1.9% in the first quarter of 2018. This represents a slowdown in growth since in the same period of 2017 GDP grew by 2.6%. On the other hand, exports went from \$ 1,806.32 million in January to \$ 1,951.04 million in May, growing by 8%. In this period, the Petroleum Trade Balance shows a surplus of \$ 1,475 million, while the Non-Petroleum Trade Balance increased its deficit reaching \$ 1,238 million.

In the field of economic accounts, the external debt that reaches \$ 39,529 million is remarkable. As it is a country whose currency is the dollar, the inflation rate does not suffer large variations, standing at -0.27% in June 2018, constituting one of the countries in Latin America with the lowest inflation rate.

With regard to the external sector, it is important to mention that Direct Foreign Investment in Ecuador has fallen in the last year to \$ 606.4 million, lower amount compared to the amounts of the year 2016 when \$ 755.4 million were raised, which proves that the level of confidence of the foreign investor is low.

Social aspects of Ecuador

Within his work *Interculturality: the road to Ecuador*, Enrique Ayala Mora points out that Ecuador has a "variety of climates, geographical spaces and environmental realities [which is] the basis of the formation of regional identities" (Ayala, 2014, p.12). Although this assertion is true, there are a series of common patterns among the different cultures that allow us to study Ecuadorian society.

The Culture Compass study prepared by the Hofstede Center is based on the hypothesis that culture determines the behavior patterns of societies. According to this study, for the Ecuadorian citizen, social inequalities are a normal fact, which is directly related to race. In other words, there is a tendency to believe that foreigners are "superior" than people born in the national territory. This is a problem because the Ecuadorian considers domestic products to be of lesser category, while at the same time giving preference to foreign products. This would be a sociological factor that explains the level of imports.

Outlining a little more Ecuadorian society, according to the Culture Compass, the Ecuadorian is a conservative citizen who tends to live collectively trying to avoid any kind of conflict that threatens the peace of the group. In this way, the family is the favorite group. In this model of society, argues the Hofstede Center, the average Ecuadorian tries to be part of groups that give him social status and recognition. Thus values related to masculinity predominate. That is, the goal is to achieve success because it is related to the idea of progress in social class. Based on these data, it can be said that the Ecuadorian

consumer tends to be loyal to brands that enhance their social value and that are accepted by their social circle.

In the area of negotiation, the Integrated Foreign Trade System of Peru argues that the Ecuadorian exporter is characterized by showing a certain indifference towards punctuality. Likewise, it is necessary to be patient since Ecuadorians have a high analytical capacity that allows them to evaluate all the edges of a business, making decisions in which their previous experiences have a high influence.

Technological aspects of Ecuador

Within the Global Competitiveness Ranking 2017-2018, prepared by the World Economic Forum, Ecuador is ranked 97 out of 137 economies evaluated. Among the variables used in the qualification process is the availability of technological products that influence the productivity of the economy, where Ecuador obtained its worst ratings, obtaining 3.6 out of 7 in "Business Sophistication" which places it in position 105 of the ranking. In the same way, in the "Innovation" pillar, Ecuador ranked 111th obtaining a score of 2.9.

According to the World Economic Forum, the reasons why Ecuador has obtained these qualifications are a low level of innovation in productive processes, lack of investment on the part of companies in research, a lack of linkage between universities and the productive sector to generate research and development, and a low level of investment in advanced technology that places the Ecuadorian State in 113th position in the investment ranking.

The technological field is underdeveloped if it is observed that Ecuador, ranking 120th, is one of the countries in the region with the lowest degree of attraction of Foreign Direct Investment that generates technology transfer, which in the long term produces stagnation in the productive and innovation processes, since neither the public sector nor the private sector are making real efforts to change the primary-export dynamic that is rooted in the country.

As a result of this, Ecuador, according to data from the Central Bank, has seen its exports of medium and high technological intensity reduced from \$ 700.24 million reached in 2013 to \$ 505.13 million in 2017, while manufacturing based

on natural resources and those of low technological level increased, from the \$ 3,847 million in 2013 to the \$ 4,113 million exported in 2017.

5.2. SWOT Analysis

Once the general environment of Ecuador has been understood, a SWOT analysis will be carried out to "determine the factors that may favor (Strengths and Opportunities) or hinder (Weaknesses and Threats) the achievement of the established objectives" (Marketing Publishing, 1994, p. 157). This tool is intended to determine the internal and external factors that may affect the objective of making the commercial relationship with the Republic of Korea favorable to Ecuador.

Next, the matrix of Strengths, Opportunities, Weaknesses and Threats is presented:

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none"> • Labor-intensive productive sectors. • Tendency to export growth. • Existence of an institutional and legal framework that guarantees incentives to the exporting and productive sectors. • Predisposition to subscribe new commercial agreements. • Streamlining logistics processes. • State policies that seek the transformation of the productive matrix. • Export promotion. 	<ul style="list-style-type: none"> • Recovery of the global economy. • Emergence of new regional and bilateral trade agreements. • Tendency to favor clean energies. • Stability of financial markets. • Creation of economic complementation regimes. • Creation of an identity of Ecuadorian production through the Ecuador Country Brand. • Benefit from technology transfer programs for the development of new industries.
WEAKNESSES	THREATS
<ul style="list-style-type: none"> • Income tax of 25%. • Restrictions on foreign trade. • Collection taxes do not generate incentives to invest in the country. • The productive structure of the country prioritizes the extensive production of raw materials. • Little diversification of national production. • Strong dependence on oil. • There are no commercial agreements that promote the exchange of merchandise. 	<ul style="list-style-type: none"> • Growth of protectionist policies in countries such as the United States or the United Kingdom. • Fluctuations in the prices of raw materials. • Variations in the exchange rate. • The countries of South America produce goods similar to those produced by Ecuador. • Damage to the image of the country as a result of corruption cases

<ul style="list-style-type: none"> • Little product development, high technological intensity incorporated. • Low competitiveness 	
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5.3. Porter diamond applied to Ecuador

Factor endowment

Regarding to the land factor, historically, Ecuador has been characterized as an exporter of raw materials, which, as has been pointed out throughout this investigation, is the main source of export earnings, which constitutes a competitive advantage since, beyond the great diversity of commodities, Ecuador has a great experience selling this type of products, whose production is extensive within the country.

In the field of labor, in previous chapters of this work, it was pointed out that the Ecuadorian population is young. According to data from the National Institute of Statistics and Censuses, during the year 2017, Ecuador had an Economically Active Population of more than 8 million people. Within the study carried out by Cornell University, Ecuador is the second country in the world where companies carry out training programs for their employees, trying, in this way, to increase their knowledge in the respective work area. On the other hand, only 13% of the PEA is dedicated to a job that requires a high level of technical knowledge.

According to data from the World Economic Forum, Ecuador is among the fifty countries with the best infrastructure in the world, highlighting the state of its roads and seaports, which have improved thanks to the increase in investment by the State in works public. However, despite the high quality of the infrastructure, Cornell University points out that, in terms of logistics service quality, customs services, and the frequency in which goods arrive on time at their destination, Ecuador is far behind many of the countries in the region, ranking 73rd, only surpassing Colombia, which is ranked 93th in the Global Innovation Ranking 2018.

Structure, Strategy and Rivalry of companies in Ecuador

Article 2 of the "Technical Provision for the Transmission of Data of SME Statistics of the Countries of the Andean Community" establishes how the member countries of the Andean Community should characterize their companies. Based on this, Ecuador classifies companies according to their size in micro, small, medium (A and B), and large company. According to the latest data of the Business Directory, microenterprises are the group that includes 90% of companies, followed by small businesses with 6%, while between large and medium enterprises do not reach 2%. Thus, it can be seen that there is a strong predisposition toward entrepreneurship that places Ecuador in the fourth country with the greatest tendency to invest in a new business, however, according to the Laboral and Business Dynamics Laboratory, after the five-year life of the business, about 50% of these new ventures will disappear.

However, if we analyze the data of total sales by company size, we see that 80% of total sales are made by large companies, while the incomes of micro and small companies are equivalent to 7%. This situation is due to the high productive capacity of large companies that favors the creation of economies, which allows them to produce with a greater quantity and in this way; they manage to cover a greater portion of the market.

According to a study by the Universidad de Especialidades Espíritu Santo, of the total number of companies that exist in Ecuador, 90% are family-owned. In these companies, a decision-making process based on the guidelines established by a family is carried out. These companies are "more long-lived, with a greater vocation for permanence, and a greater commitment to stability in employment, even at the cost of lower profitability" (Instituto de la Empresa Familiar, 2017).

Finally, companies in Ecuador tend to compete by applying a strategy of approach that allows them to reach a segment of the market, either by a process that differentiates their product or trying to reach the customer with a better price. To achieve this, negotiation processes are carried out with suppliers, which, although it allows the company to reduce costs or provide other features to its products, does not help in promoting research and

innovation processes that encourage competition that favors the market development.

Conditions of Ecuador's demand

In Chapter 3 of the present investigation it has been possible to confirm the constant demand of products with added value by Ecuador. The reason is the lack of industries capable of producing these products, which causes imports to grow generating a negative trade balance. Clear sample of this is the deficit that exists between the exports and imports of products with incorporated technology. In 2017, while Ecuador exported a total of \$ 505.13 million in medium and high technology products to the entire world, \$ 9.721,8 million were imported. In this way, Ecuador must generate new alternatives that allow it to reduce the deficit while increasing its supply of industrialized goods.

Related and support sectors

In the analysis of the composition of the Ecuadorian GDP it was possible to determine that the economic sector that contributes the most to GDP is the manufacturing sector, contributing 14% of the total GDP of the year 2017. This sector is composed of agriculture and aquaculture. According to the data of the National Classification of Economic Activities of May 2018, the main activity of the manufacturing sector is the elaboration of food products. This activity is successful due to the linkages that have been established with companies in the agricultural sector, which supply raw materials that are transformed and distributed in the national market.

5.3. Proposal to improve the flow of exports from Ecuador to the Republic of Korea

After establishing that the competitive advantages that are available to Ecuador lie in a consolidated manufacturing sector that is linked to the agricultural and aquaculture sectors we intend to make a proposal to improve the commercial situation between the Republic of Korea and Ecuador. To do this, an analysis will be made by proposing alternatives in short (3 years) and medium (6 years) time periods, since economic cycles are volatile.

This proposal aims to improve the current conditions of the bilateral trade balance, in which raw materials are exported, while consumer goods are imported. This generates a negative balance in favor of Ecuador, which grows year by year, as the purchasing power and consumer needs increase.

- **Short-term proposal**

In order to generate favorable bilateral trade, Ecuador must begin a real process of diversification of the exportable supply. To achieve this, the main task is to identify in the South Korean market, the segments where Ecuador can develop a competitive advantage. For this, it is necessary to improve the work done by the office of PROECUADOR in terms of market research, since the central government has a high degree of presence within the country's activities, it is essential that this entity make efforts to help development of the export sector, through the improvement in terms of efficiency of its commercial offices. In this way, information should be obtained from those sectors where new products of Ecuadorian origin can be introduced.

In the same way, commercial offices should increase the level of sales to South Korea, intensifying export promotion programs, as PROECUADOR has already done with the "Exporter's Route". This will start a positioning of Ecuadorian products, which should be reinforced with instruments such as the Country Brand.

Once the priority sectors have been defined, business cooperation meetings should be encouraged, to help the unions in each sector contact those groups to generate a complement of activities, in order to lay the foundations for the creation of productive chains of level international. For this, a joint work between the public sector and the private sector is necessary, which is reflected in the determination of the objectives to be reached and the points to be negotiated, so that the needs of both sectors can be met. Likewise, those companies that have the capacity to export must participate in international fairs in order to discover the potentialities and challenges of the international market.

In the same way, credit lines should be expanded through public banking, to allow the financing of export activities. In the same way, the government

should promote research activities within companies through subsidies, creating the right conditions for the productive-exporting sector not only to benefit from developing commercial activities, but also to generate goods whose productive process has research as an intangible component that adds value to its production.

- **Medium-term proposal**

In the medium term, Ecuador must consider as goals to sign the Strategic Agreement of Economic Cooperation with the Republic of Korea, with the purpose of creating a regulatory framework for trade between both countries. This is key to increasing the commercial flow between nations, while generating investment opportunities within Ecuador. Likewise, a process of technology and knowledge transfer would begin, which is a key factor in achieving the change in the productive matrix.

In the same way, the Research, Development and Innovation (RDI) programs should be promoted. For this, it is crucial that the State promotes the link between private companies and universities' research centers, not only in order to generate new products, but with the objective of closing the production circle, adding the factor of innovation to obtain substantial improvements in the production processes of traditional goods, contributing to save resources.

Although, it is a reality that the countries of the region export products similar to those of Ecuador to the Republic of Korea, Ecuador should take advantage of this reality to give added value to their products in order to make them more competitive through its manufacturing sector. Thanks to this, both systematic and non-systemic risk would be reduced since new production would be less susceptible to changes in the international market. This does not happen with the raw materials whose price and demand are conditioned by fluctuations in international demand. Besides this, Ecuador would begin to change the focus of competing for price, to enter into a dynamic of competition for differentiation.

Moreover, it is important that the Ecuadorian State to contribute to the development of the national industry while protecting it. Consumer goods,

mostly vehicles, are the main products that Ecuador imports from the Republic of Korea, so it is imperative that the State supports the assembly manufacturing sector, encouraging the signing and renewal of contracts of assemblers of products imported in completely knocked down (CKD) condition. To do this, beyond economic incentives, certain trade barriers must be established in order to protect the development of national production in that sector.

It should be mentioned that these proposals do not aim to reduce the existing deficit with the Republic of Korea overnight, but it does promote the activation of the most important sectors so that these can contribute to the country's development, making it more competitive in issues of production, while increasing its attractiveness in Asian countries.

Table 16 Proposal to improve trade relations between the Republic of Korea and Ecuador

PROCESS	CURRENT SITUATION	RECOMENDACIÓN	OBJECTIVE	EFFECTOS POTENCIALES	ACTIVITIES
Commercial investigation	It focuses only on the sectors where Ecuador sells more	Focus on the sectors where exports can help the development of the national manufacturing industry	Identify the potential sectors in the South Korean economy that can be complemented with the national industry	New information that helps decision making	1. Market studies. 2. Creation of work teams to tabulate information, analyze and make decisions.
Promotion of exports	Efforts are being made to bring Ecuador's products closer to international markets.	The image of the products should be strengthened with tools such as the Country Brand	Positioning Ecuador as a potential product for the South Korean market	Better consumer opinion regarding Ecuadorian products	1. Promote the use of the country brand as a tool to provide added value. 2. Carry out campaigns in favor of the image of Ecuador.

Creation of joint work spaces	Only large exporters frequently attend international fairs and have decision-making power in situations that affect their activity.	Generate spaces of business cooperation and the participation of the unions of the priority sectors in international fairs	Laying the foundations for future agreements, as well as defining the direction that the companies in this sector will follow	Emergence of new exporters	1. Meetings between the government and the unions of the priority sectors. 2. Create negotiation rounds. 3. Encourage the participation of potential exporters in international fairs.
Subsidies to producers	Low level of research in companies	Creation of incentives for those producers who wish to carry out research processes	Generate research processes that improve quality in companies	Growth of the competitiveness of national products	1. Create subsidies and establish benefits for those companies that invest in research processes
Negotiation of commercial agreements	There are no bilateral trade agreements	Promote the negotiation and signing of instruments that help economic development	Encourage the increase of bilateral commercial flow under a legal and operational framework.	1. Increase exports 2. Imports at a lower price	1. Negotiate and sign the Strategic Agreement on Economic Cooperation

Promotion of new quality and production systems	The Ecuador productive cycle within Ecuador does not encourage innovation	Be part of the global dynamics of production improvement by adopting different quality systems in companies	Generate substantial improvements in production processes in order to provide the product with features that allow the differentiation of competition	1. Products that fight in the market by differentiation and not by price. 2. Production with low non-systemic risk	1. Promote the adoption of quality systems in companies that include research, development.
Protection of the national industry	There are industries that can develop thanks to imports	Take advantage of certain imports to generate development in the country	Generate new productive activities granted to strength the manufacturing sector	1. Generate consumer goods that are not produced at the national level, in order to reduce certain imports,	1. Increase incentives for assemblers in the country.

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Conclusion

This chapter is based on the need to determine how Ecuador can improve the situation of a negative trade balance. For this, different analyzes of the environment of Ecuador have been carried out. These analyzes have served to make a proposal to improve trade relations, in order to generate a profit in the exchange with the Republic of Korea. Thus, it has been observed that Ecuador is a country whose main competitive advantage is in the manufacturing sector that has at its disposal a large amount of raw materials that complement this sector by strengthening its competitiveness.

The factors that favor the development of the bilateral commercial relationship have been evaluated, and it has been possible to prove the existence of a large number of advantages and opportunities that enable Ecuador to change its commercial reality through the transformation of certain patterns of production that historically have limited the economic development of the country.

In this way, a proposal was made linking the main actors of a commercial relationship: governments and their productive sectors. Since the behavior of the Republic of Korea is part of the systemic risk that Ecuador cannot control, the proposal was based on the characteristics that Ecuador can control. For this, an improvement matrix has been followed, determining the processes related to the commercial activity that should be improved, its situation has been determined, and solutions have been proposed, in which both the government and its priority sectors have responsibilities.

Thus, we proposed a model in which both the public sector and the private sector bet on new innovative production models that help to diversify the basket of exports, generating goods with a greater added value and that do not suffer the price fluctuations that affect the prices of raw materials. This will be achieved thanks to the support of the State to the productive sectors.

Also, in this model, the State has the function of creating the conditions to trade for the national interest. For this, the institutions must work to facilitate the process of knowledge of the target market to the Ecuadorian exporter and encourage him to establish links with the sectors of interest of the South Korean

country. Likewise, is important to sign a commercial agreement that takes into account the economic realities of both countries. This would provide a regulatory framework for bilateral trade relations that promotes a greater flow of goods and capital movements.

CONCLUSIONS

Analyzing the commercial relationship between Ecuador and the Republic of Korea during the period 2009-2016, based on the study conducted, it can be concluded that:

- The Republic of Korea is one of the most important economies in the world and one of the leaders in technological innovation due to innovation processes, which have originated a productive structure based on the generation of goods with high added value.
- The South Korean market is an available place to introduce new products.
- The primary-export productive structure is deeply rooted in Ecuador, threatening the national economy because it generates dependence on the export of raw materials that are sensitive to fluctuations in international market prices. The proof of this is the data for the year 2009 that showed that the exports of the economy dependent on raw materials were more affected by the economic crisis than the country's exports that depended on innovative products with high added value.
- The Republic of Korea constitutes a non-traditional market for Ecuador, since in the list of destination countries of Ecuadorian exports, the South Korean State occupies the twenty-second position representing only 0.3% of the exports made by Ecuador.
- Since 2011, Ecuadorian exports have grown due to the increase in the prices of raw materials such as oil, but not because of a policy that generates positive changes in the trade balance between Ecuador and the Republic of Korea.
- Ecuador suffers a deficit in the general trade balance, which year after year continues to grow due to the dynamics of consumption of the national market that continually demands goods with high technology incorporated, which can not be produced in the national territory due to the lack of economic and technological resources. The appreciation of the dollar produces an increase in imports faster than exports.
- The deficits are not negative, since in countries such as Ecuador that do not have the resources, in the short term, to develop consumer

products, it is necessary to encourage exchange, even if this results in a deficit trade balance.

- Ecuador exports large quantities of shrimp and derivatives to the Republic of Korea, which are part of the main products that Ecuador distributes around the world.
- The commercial relationship between Ecuador and the Republic of Korea is conditioned by the lack of a commercial agreement that, besides creating a regulatory framework for commercial exchange, generates opportunities for economic integration and investment and strengthens knowledge transfer processes. Meanwhile, for Korea, Ecuador is a market that consumes its technological assets such as vehicles and washing machines.
- The environment in which productive activities take place offers competitive advantages to Ecuador, among them the manufacturing sector, which is one of the sectors that grows the most, thanks to the existence of a large number of raw materials, which complement its activities.

RECOMMENDATIONS

In the last chapter of the research, a relationship improvement plan was elaborated, from which some guidelines that serve as recommendations will be taken.

- In order to develop bilateral trade, it is imperative that Ecuador proceed to sign a trade agreement with the Republic of Korea.
- It is necessary to reduce the deficit of the trade balance in the short term through promotional activities that reinforce the image of the Ecuadorian products in the mind of the South Korean consumer.
- Create an identity for exported products, which is linked to the national culture. This can be achieved through the use of tools such as the Country Brand,
- Promote market research processes that help determine the priority sectors that can be successful when exporting to the Republic of Korea.
- Promote joint work between the private sector and research centers of national universities.
- Promote the Research + Development + Innovation processes in order to improve the quality cycles within the companies, which lead to endowing the products with features that add value.
- Encourage the participation of export sectors in international fairs.
- Encourage the development of sectors that have a competitive advantage, in order to develop a solid industry that can export in the long term.
- Create new lines of credit through public banking.
- Promote competition by differentiation and not by price.

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