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Analysis of Foreign Direct Investment Flows in  
Ecuador: 2010-2020

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# LIST OF CONTENTS

TABLE OF CONTENTS.....	i
LIST OF FIGURES.....	ii
LIST OF APPENDICES .....	iii
Abstract.....	1
Introduction .....	2
Objectives .....	2
Theoretical framework .....	2
Literature review.....	3
Methods.....	4
Results.....	4
Discussion .....	22
Conclusion.....	25
References .....	26
APPENDIX A.....	30

## LIST OF FIGURES

<b>FIGURE 1</b> .....	<b>5</b>
<b>FIGURE 2</b> .....	<b>5</b>
<b>FIGURE 3</b> .....	<b>6</b>
<b>FIGURE 4</b> .....	<b>7</b>
<b>FIGURE 5</b> .....	<b>7</b>
<b>FIGURE 6</b> .....	<b>8</b>
<b>FIGURE 7</b> .....	<b>9</b>
<b>FIGURE 8</b> .....	<b>10</b>
<b>FIGURE 9</b> .....	<b>10</b>
<b>FIGURE 10</b> .....	<b>11</b>
<b>FIGURE 11</b> .....	<b>12</b>
<b>FIGURE 12</b> .....	<b>12</b>
<b>FIGURE 13</b> .....	<b>13</b>
<b>FIGURE 14</b> .....	<b>14</b>
<b>FIGURE 15</b> .....	<b>14</b>
<b>FIGURE 16</b> .....	<b>15</b>
<b>FIGURE 17</b> .....	<b>16</b>
<b>FIGURE 18</b> .....	<b>16</b>
<b>FIGURE 19</b> .....	<b>17</b>
<b>FIGURE 20</b> .....	<b>18</b>
<b>FIGURE 21</b> .....	<b>18</b>
<b>FIGURE 22</b> .....	<b>19</b>
<b>FIGURE 23</b> .....	<b>20</b>
<b>FIGURE 24</b> .....	<b>20</b>
<b>FIGURE 25</b> .....	<b>21</b>
<b>FIGURE 26</b> .....	<b>22</b>

## LIST OF APPENDICES

APPENDIX A.....	30
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# Analysis of Foreign Direct Investment Flows in Ecuador: 2010-2020

## Abstract

The objective of this research is to analyze foreign direct investment (FDI) flows in Ecuador for the period between 2010 and 2020, including the main concepts of FDI and its key components in the theoretical framework section. In the literature review section, a historical account of FDI in Ecuador has been made, from its beginnings to the present. In the following results section, data provided by the Central Bank of Ecuador was used to perform an analysis on the main changes in the flow of FDI and the sectors that receive more FDI in Ecuador, comparing the years 2010 and 2020, .in addition, it will be shown which have been the main FDI investors in Ecuador within the established period. In the discussion section, we reflected on why Ecuador, within the period of analysis, has not been able to maintain the same investors from 2010 in 2020.the reasons why the mining sector continues to be the main FDI receiving sector. The shortcomings of Ecuador in attracting FDI have also been analyzed. Finally with the objective of establishing recommendations, Brazil, the largest FDI recipient in Latin America, has been taken as an example, analyzing some of its successful strategies.

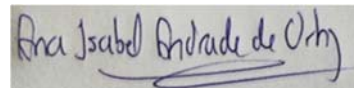
**Keywords:** foreign direct investment, economy, development, Ecuador, extractivism.

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## Introduction

In a globalized and increasingly interconnected world, FDI has become a key factor in the search for local development, not only through foreign economic resources but also through the transfer of knowledge and technologies that can boost domestic industries and help them achieve their potential.

Ecuador is a country where FDI has not been such a notorious component. Therefore, this is one of the problems Ecuador has had to work on to achieve a better level of development. Compared to other countries in the region, Ecuador is one of the countries with the lowest levels of FDI in its territory. Ortiz et al. (2018) state that compared to Peru and Bolivia, FDI percentages in Ecuador have been quite low. This is why, for Ecuador, the ideal would be to become more attractive to foreign investors, since the flows generated by FDI are considered as something fundamental for economic growth (García and López, 2020). Therefore, FDI generates many expectations in developing countries, which hope that its results will be positive and that it will contribute with financial capital to alleviate the insufficient internal savings that these countries have.

The importance of the FDI phenomenon, according to García and López (2020), not only has to do with numbers but with the development of a production chain that interconnects a sequence of operational functions at a global level that helps countries with fewer economic and technological resources to have new and innovative tools that lead to the growth and potentialization of their industries. It helps developed and underdeveloped countries, by sharing knowledge and cooperation to achieve economic improvement, thus, to avoid the gap that has always existed between them (Rivas and Puebla, 2016).

This research work seeks to analyze FDI flows in Ecuador from 2010 to 2020 to understand how FDI levels have changed over this period, which are the main investor countries, and which are the productive sectors that have received more FDI in Ecuador. The analysis of FDI in Ecuador is of utmost importance considering that it contributes to economic growth related to goal eight of the Sustainable Development Goals (SDGs), which promotes inclusive and sustainable economic growth, employment, and decent work for all. This in turn contributes to increasing the gross domestic product and productivity levels of the least developed countries (United Nations, 2020).

## Objectives

The general objective of this article is to analyze FDI flows in Ecuador within the period between 2010 and 2020. Subsequently, the specific objectives are:

1. To carry out a theoretical and conceptual review of Foreign Direct Investment.
2. To carry out a historical review of foreign direct investment in Ecuador.
3. To analyze foreign direct investment flows in Ecuador 2010-2020.

## Theoretical framework

FDI is a key element in international economic integration. According to Garcia and Lopez (2020), FDI flows are seen as an engine that has the potential to boost the growth of recipient countries. It has become an important channel for the transfer of knowledge and for economic development between countries, thus promoting international trade through access to foreign markets, as this can lead to recognition of the FDI recipient country in other parts of the world (Economic and Commercial Office of Spain in Quito, 2020).

FDI has long been a necessity to strengthen the economies and development of countries, since it has been proven that the injection of capital is favorable for countries that are going through a crisis, generating employment, increasing production and growth of Gross Domestic Product (GDP) (Espín et al, 2016). Even the Organization for

Economic Cooperation and Development (OECD), points out that FDI positively influences human capital through government policies that are applied to seek FDI (2002).

At the beginning of the 20th century, FDI had an impact in European countries, but also in Latin American countries such as Brazil (Koluman, 2020), with the aim of generating strong ties between countries to satisfy the needs of both parties, and benefitting from comparative advantages (Trakman and Ranieri, 2014).

Garcia and Lopez (2020) argue that FDI is the search for long-term relationships between entities that have an investor from a foreign economy; and according to Duce (2013), this relationship leads to achieving common and lasting interests for both parties.

According to García and López (2020), the main actors involved in attracting foreign capital are multinational and transnational companies, with a parent company in the FDI issuing country and a subsidiary company located in another country that will be the recipient of FDI.

FDI is not always the same in all countries. Gonzales et al, (2018) refer to different types of FDI which are classified into: vertical foreign direct investment, which occurs when a multinational acquires an operation that acts as a supplier or distributor to reduce the cost of raw materials or to obtain greater control of its supply chain; and horizontal foreign direct investment, which occurs when the investing company performs abroad the same productive activities it performs in its country of origin, to avoid import tariffs in foreign markets.

According to Loungani and Razin (2001), countries should be very cautious when investing in another territory with respect to the benefits that this may bring them; the characteristics of the place and the investment conditions should be carefully analyzed in detail in order to confirm that this activity will be beneficial for the investor. Dunning (1994) mentions four main reasons that drive countries to undertake FDI in other territories: the search for natural resources, the search for markets, the search for efficiency, and the strategic search for assets

On the other hand, in order to be attractive, FDI recipient countries need to create an environment in which investors feel confident to make their investments. To do so, they need to reflect very low country risk. As Morales points out, for investing countries it is necessary to look at the country's risk of the territory in which they are going to invest because this shows how reliable and capable of fulfilling the financial obligations the receiving countries are. Another important aspect that makes a country attractive for FDI is its legal framework since stable policies and clear regulatory frameworks generate confidence in investors. Additionally, trade agreements contribute to the transfer of FDI due to the reduction of tariff barriers, thus generating a closer, more direct, and secure relationship between issuers and recipients of FDI (Mallampally y Sauvant, 1999).

FDI is beneficial to the host country as it helps to break the vicious circle of underdevelopment by supplementing local savings and providing technology and more effective management and marketing techniques to improve productivity and with them sectoral and business competitiveness (Mamingi and Martin, 2018). In the United Nations Conference on Trade and Development (2010) it was reported that technology transfer is one of the effects of FDI because the advanced technology of the countries that issue FDI becomes an advantage for domestic companies in terms of their processes, production, and labor.

In the world, there are several FDI bidders. According to data from the United Nations Conference on Trade and Development, the top three FDI bidders in the world in 2019 were Japan, with 227 million dollars; Germany, with 139 million dollars; and China, with 137 million dollars in foreign investment. In 2020, the top three were China, Luxembourg, and Japan, with 133 million, and 127 117 million dollars, respectively (2021).

## **Literature review**

Ecuador's economy has undergone many changes since dollarization, with ups and downs that have led to the opening of a market that encourages FDI in the country, since domestic savings were not enough.

According to Acosta (2001), FDI in Ecuador originated in the thirties, starting with mining and oil industries in which several foreign companies invested. Later, in the 1940s, and more strongly in the 1950s, the banana sector began to receive great attention from foreign investors.

In the 1970s, the regulations of Decision 24 of the Andean Pact were implemented. Tironi (1977) states that these regulations limited the control of foreign companies over the production and commercialization of Ecuadorian oil, due to the fact that the country was going through an oil boom whose benefits needed to be shared at the national level. Due to these new controls and restrictions, added to the lack of negotiation flexibility and a non-stable economy, FDI income was very scarce in the 1980s.

However, Oleas (2016) argues that, in the nineties, the country made a change in its legal framework, lowering the obstacles established for the entry of foreign capital in order to attract more FDI to the country. With this, the FDI flows generated by that decade were higher and reached 5.4 times more than the income of the eighties. It is important to know that a characteristic of FDI flows is that they are very sensitive to political and economic changes in both issuing and receiving countries, which is why in 1999, with the crisis that the country went through due to dollarization, investment flows suffered a 23.5% decrease compared to the previous year (Gastambide, 2010).

Since 2003 there was a decrease in FDI and the year 2010 was when one of the lowest FDI figures was generated, which was 165.98 million dollars (SDG Ecuador Territory, 2018), focusing on reinvestment of profits (SELA, 2015). From 2007 onwards, FDI flows were not so favorable for the Ecuadorian economy as the policies implemented by the government of former President Rafael Correa were not the most appropriate for attracting FDI. During the period from 2010 to 2018, the FDI that entered the country was very low, with an annual average of 1.3 billion dollars. Furthermore, by 2019, FDI in the country represented only 0.87% of the economy (Sánchez et al., n.d.). According to the World Investment Report (2020), between 2019 and 2020, FDI also suffered a drop of 3.4%, a percentage that compared to other countries is relatively low. However, ECLAC (2020) states that despite the pandemic that Ecuador went through, it was one of the countries in which the inflow of foreign capital did not show a greater decrease.

Due to the pandemic, investment issuing countries began to gradually reduce the movement of assets abroad, starting in February 2020. In the case of Ecuador, the fall in FDI is explained by its slowing economy and also because the country risk increased significantly, mainly in March, when it reached 6,000 points (Gómez, 2021).

## Methods

The objective proposed in this empirical article is the analysis of FDI flows in Ecuador from 2010 to 2020. For this purpose, a descriptive study was conducted with a qualitative approach from secondary sources, using the Goal, Question, Metric (GQM) method initially proposed by Basili and Weiss, to be later extended by Rombach. The basic principle behind the methodology is that measurement should be goal-oriented. Initially, the GQM approach was only applicable to achieve the improvement of software projects and development processes; however, the terms used are adaptable to any measurement environment (Koziolok, n.d.).

This method is divided into three phases. First, the planning phase where a study of the concepts and main factors involved in FDI, as well as a historical account of FDI in Ecuador from 2010 to 2020, was carried out through a literature review. The second phase involved the collection stage through a literature review of secondary sources from official platforms of the government of Ecuador, the World Trade Organization, the Central Bank, the National Chamber of Aquaculture, and TradeMap, where quantitative data was obtained. Finally, in the interpretation stage, the data collected were used to achieve the objectives set out in this work.

## Results

Knowing the importance of FDI and the great benefits it can produce for both issuers and recipients, it is necessary to know how the evolution of FDI flows in Ecuador has been. Through data obtained from the website of the Central Bank of Ecuador, it has been possible to analyze this evolution and to know the main changes that have occurred in the period of time from 2010 to 2020.

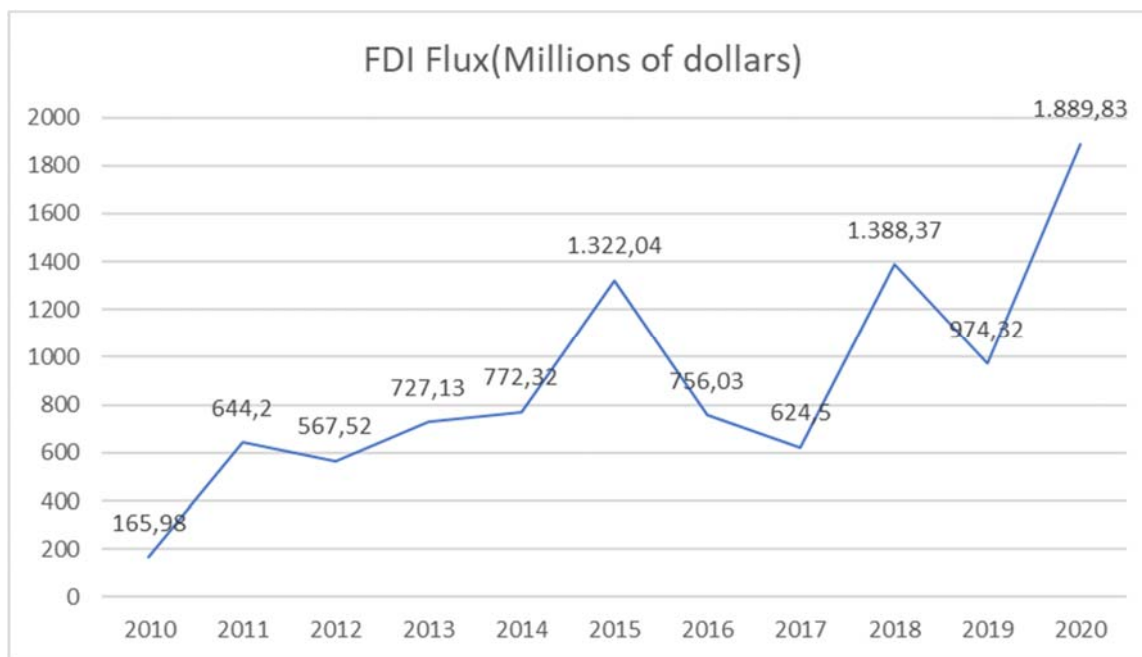
The following figure shows the variation of FDI flows in Ecuador from 2010 to 2020. In this 10-year period there has been a growth of 1038.59%. As the highest growth peaks among the analyzed period are the years 2015(\$1,322.04), 2018(\$1,388.37) and 2020 (\$1. 889.83) being 2018 the year with the highest percentage of increase with 122.32% with respect to 2017, while the years with the lowest items within the same period of time are the years



2012(\$567.52), 2017 (\$624.5) and 2019 (\$974.32), having 2017 with the highest percentage of decrease with 52.76 % with respect to 2015.

## FIGURE 1

### *FDI Flows in Ecuador between 2010 and 2020*

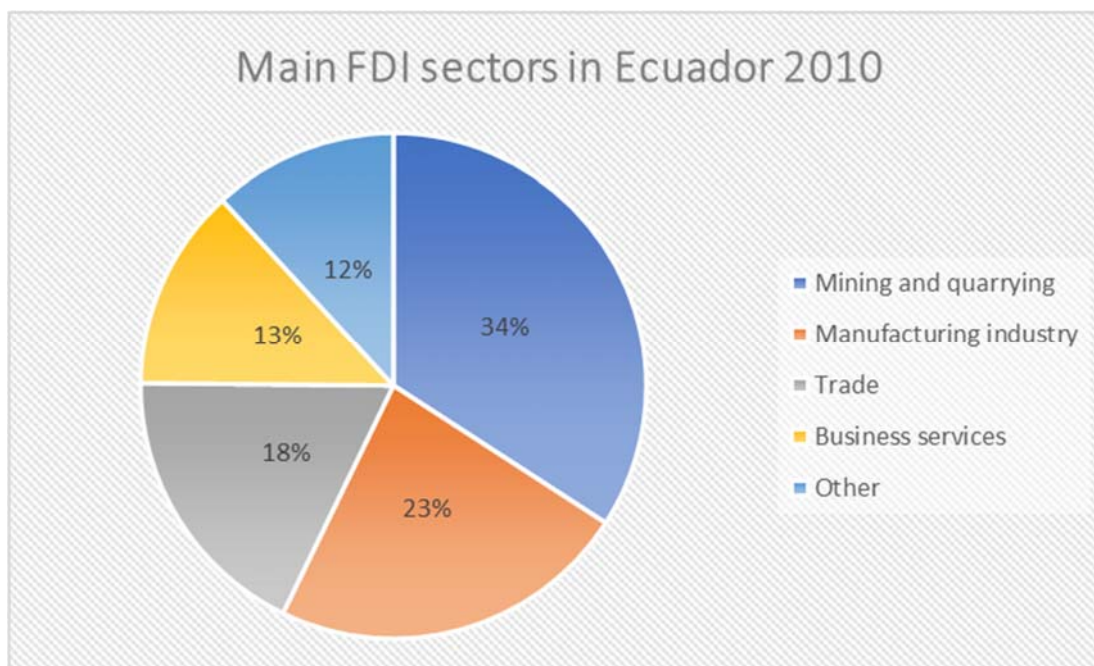


Note. Based on data from the Central Bank of Ecuador (2022)

These FDI flows in Ecuador during the period of analysis were focused on certain sectors. In 2010, the four main sectors that received the most FDI were considered, being mining and quarrying the sector that received the most foreign investment with 34% (see Figure 2). Likewise in 2020 the sector that received the most FDI was mining and quarrying, representing 49% (see Figure 3). These data reflect that the focus of FDI in these years has been directed to the same sector.

## FIGURE 2

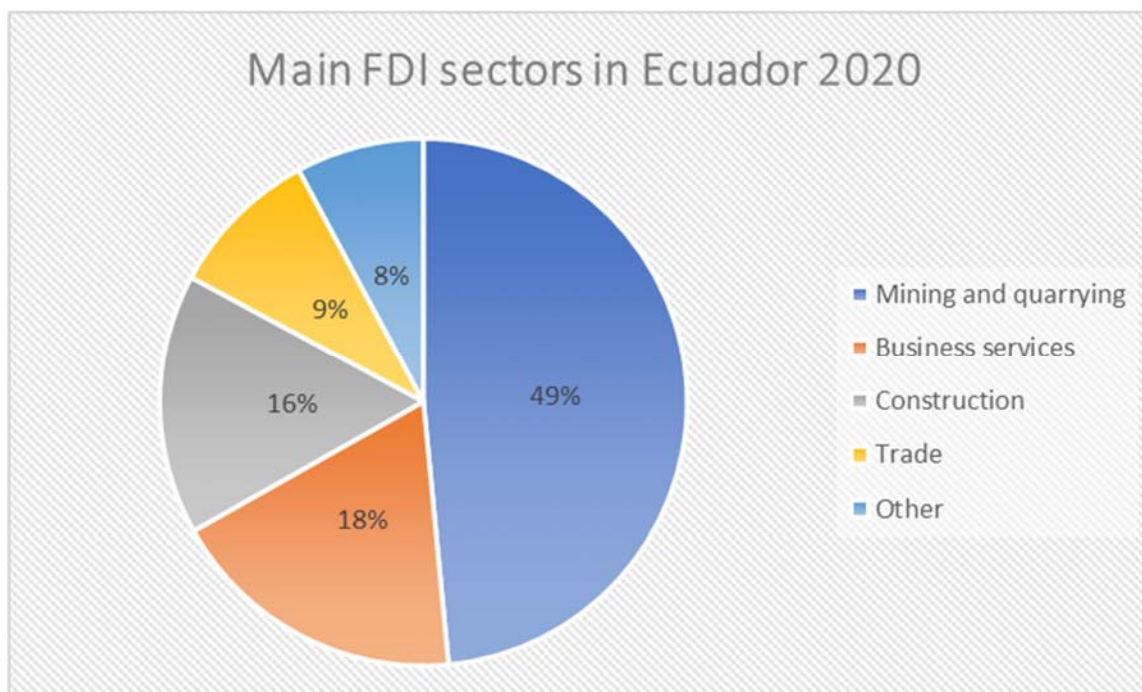
### *Main sectors of FDI in Ecuador 2010*



Note. Based on data from the Central Bank of Ecuador (2022)

### FIGURE 3

*Main sectors of FDI in Ecuador 2020*

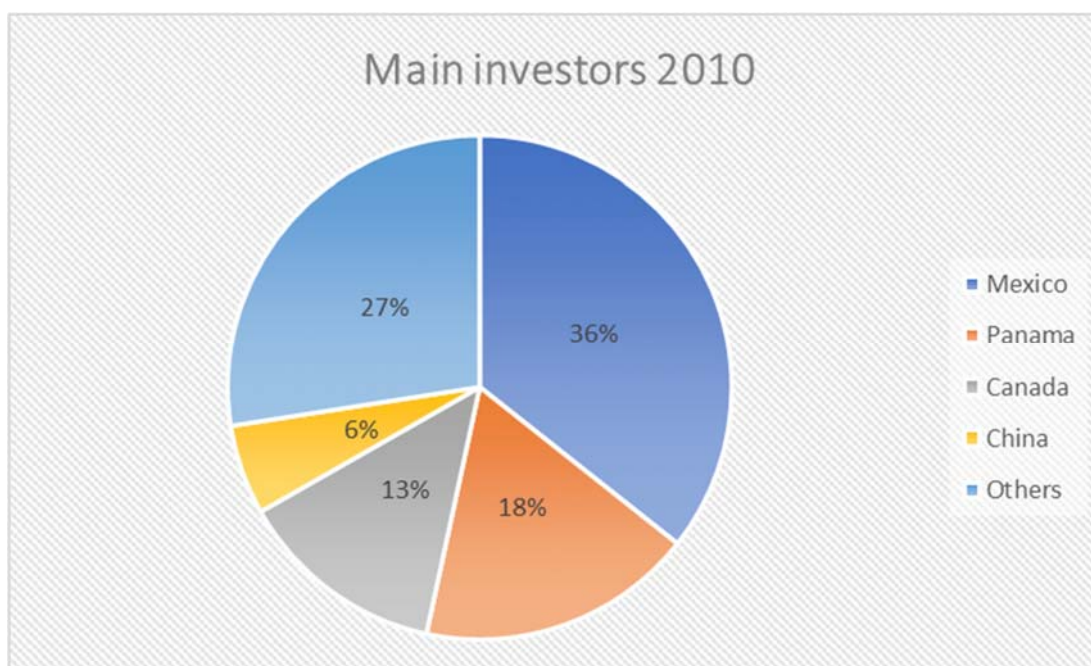


Note. Based on data from the Central Bank of Ecuador (2022)

The main countries issuing FDI to Ecuador have not always been the same. For the year 2010 the top four investors within the country were Mexico representing 36% of the annual value of total investment, followed by Panama with 18%, Canada with 13% and China with 6% (see Figure 4). While in 2020 the top four investors were Canada representing 28% of the annual value of total investment, followed by Spain with 20%, England with 9% and the United States of America with 8% (see Figure 5). The data show that the main investors changed in their entirety, the only exception being Canada, which remains among the main investors, but changed its place, moving from third place in 2010 to first place in 2020.

#### FIGURE 4

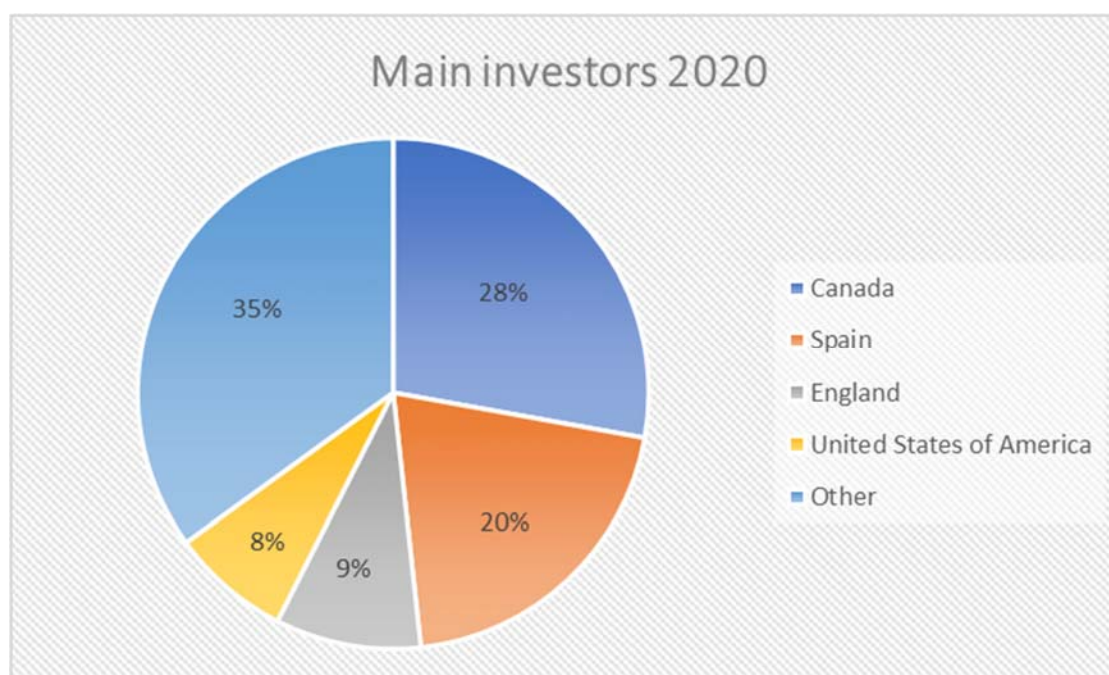
##### *Main FDI investors in Ecuador 2010*



Note. Based on data from the Central Bank of Ecuador (2022)

#### FIGURE 5

##### *Main FDI investors in Ecuador 2020*



Note. Based on data from the Central Bank of Ecuador (2022)

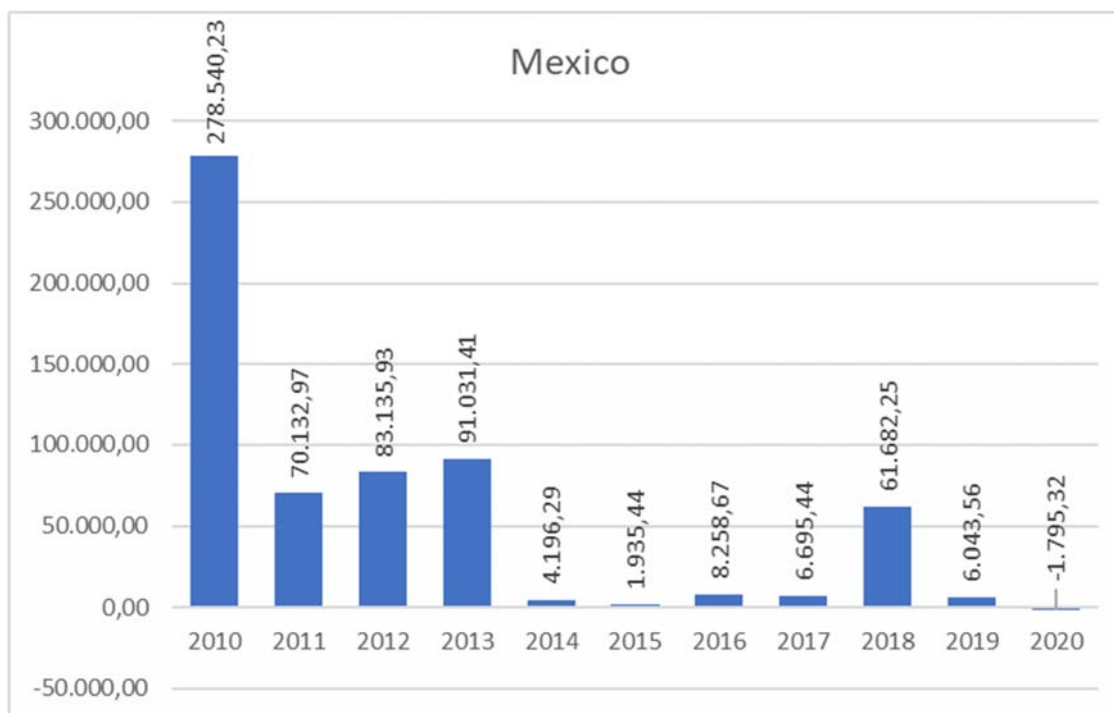
It is important to know how the issuance of FDI to Ecuador has evolved from the four main FDI issuing countries, both those that led the table in 2010 and those that led in 2020. From these countries, the evolution of FDI flows to Ecuador between 2010 and 2020 were analyzed, as well as the changes that occurred with respect to the economic sector that received the most FDI from these countries.

FDI from Mexico to Ecuador from 2010 to 2020 presents a growth of 100.64% (see Figure 6). It is worth mentioning that the FDI data presented as negative represent the years in which the value of investment that left Ecuador to Mexico was higher than the value of investment that entered Ecuador from Mexico. As for the economic sectors in Ecuador that received the highest percentage of FDI from Mexico, in 2010 the transportation, storage and communications sector received 99.3% of the total Mexican investment in that year (see Figure 7), and in 2020 the business services sector received 83.84% of the total Mexican investment in that year (see Figure 8). It can be seen, therefore, that, from Mexico, in the period of time analyzed, there has been a change of focus of interest in terms of the economic sector of Ecuador in which it has invested.

## **FIGURE 6**

*Mexican FDI in Ecuador 2010-2020*

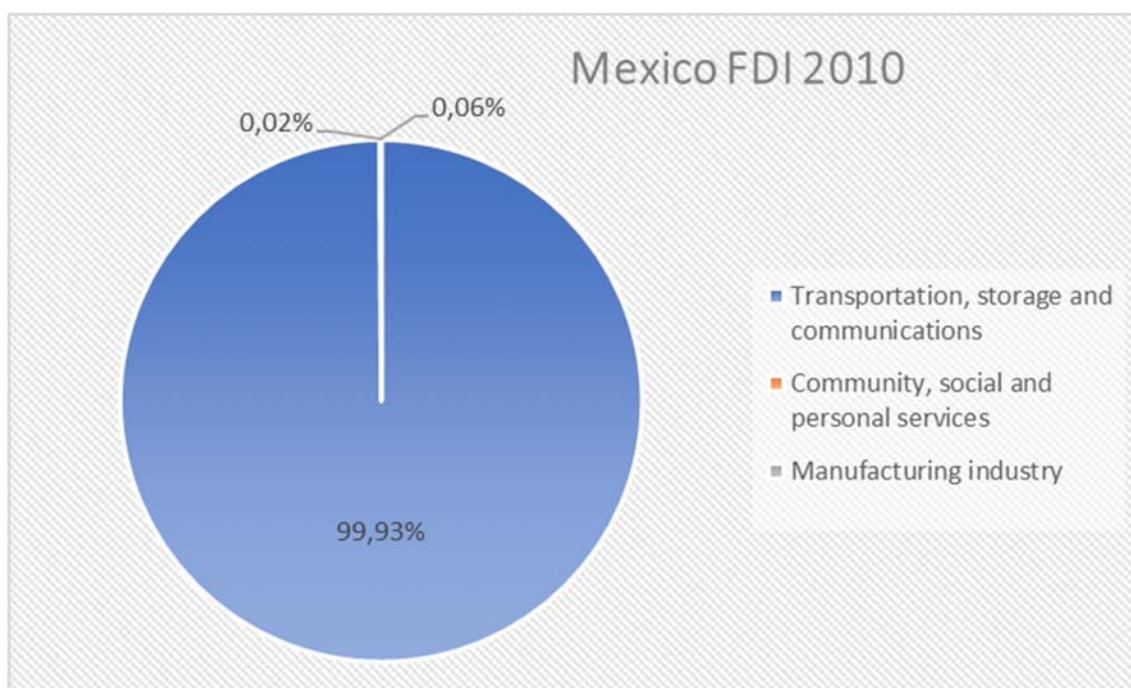




Note. Based on data from the Central Bank of Ecuador (2022)

## FIGURE 7

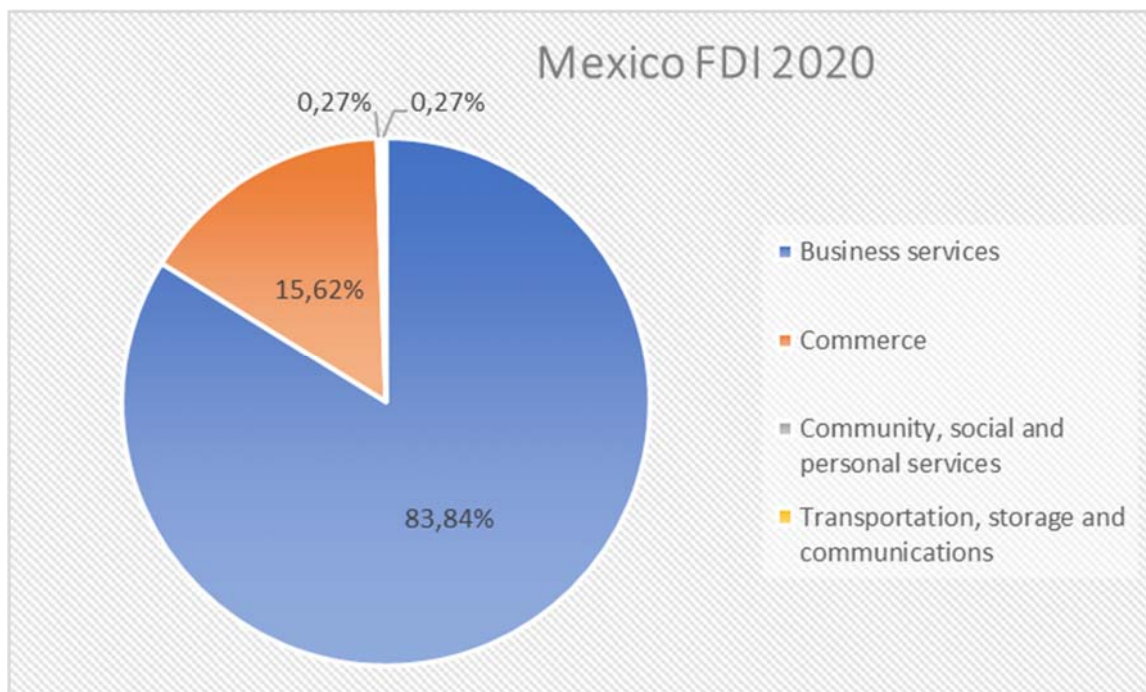
*Main sectors of Mexico's FDI in Ecuador in 2010*



Note. Based on data from the Central Bank of Ecuador (2022)

**FIGURE 8**

*Mexico's main sectors of FDI in Ecuador in 2020*

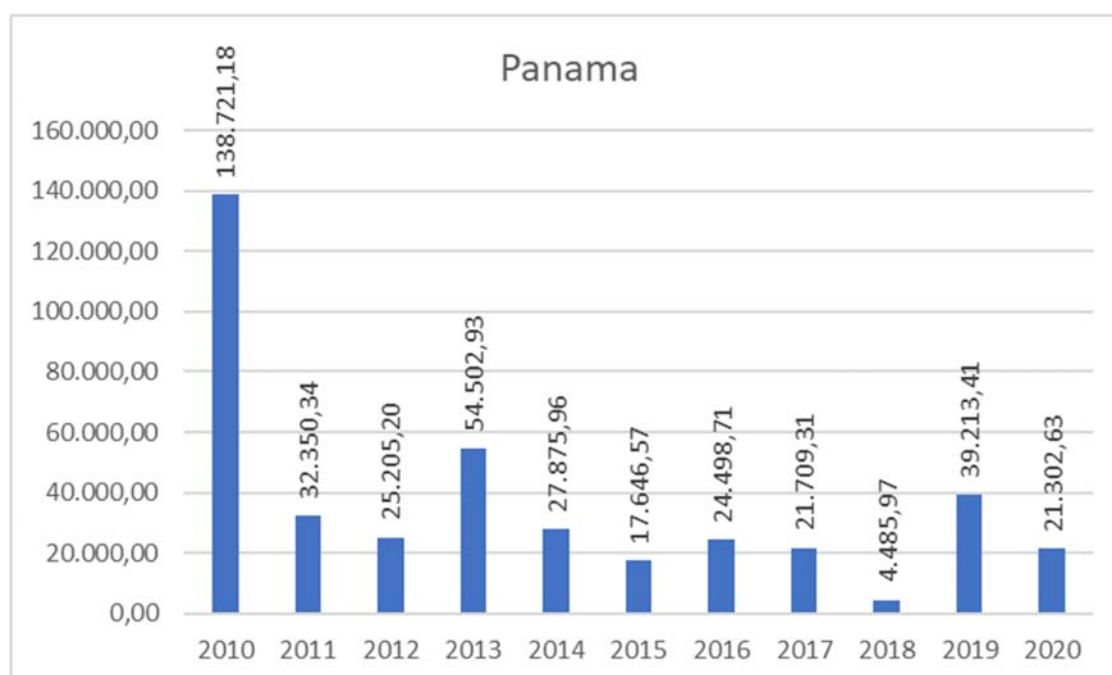


Note. Based on data from the Central Bank of Ecuador (2022)

FDI from Panama to Ecuador from 2010 to 2020 shows a decrease of 84.64% (see Figure 9). Regarding the economic sectors of Ecuador that received the highest percentage of FDI from Panama, in 2010, the sector of services provided to companies received 45.80% of total Panamanian investment in that year (see Figure 10) while in 2020, the trade sector received 74% of total Panamanian investment (see Figure 11). Therefore, it can be seen that, from Panama, in the period of time analyzed, there has been a change in terms of the economic sector of Ecuador to which FDI has been directed.

**FIGURE 9**

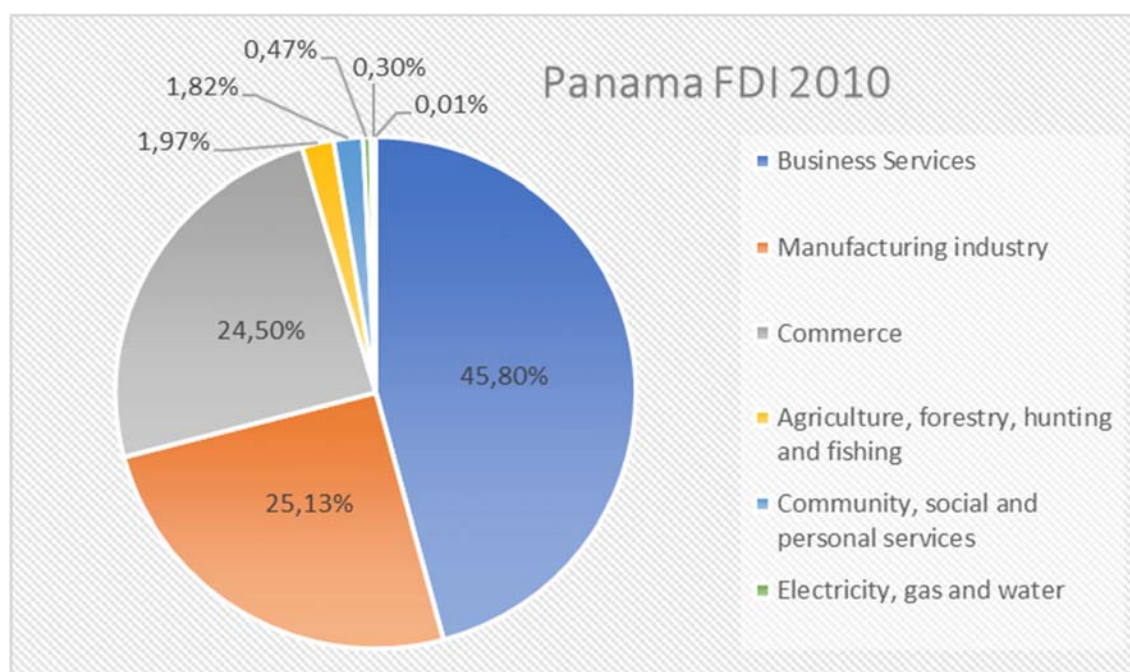
*Panama FDI in Ecuador 2010-2020*



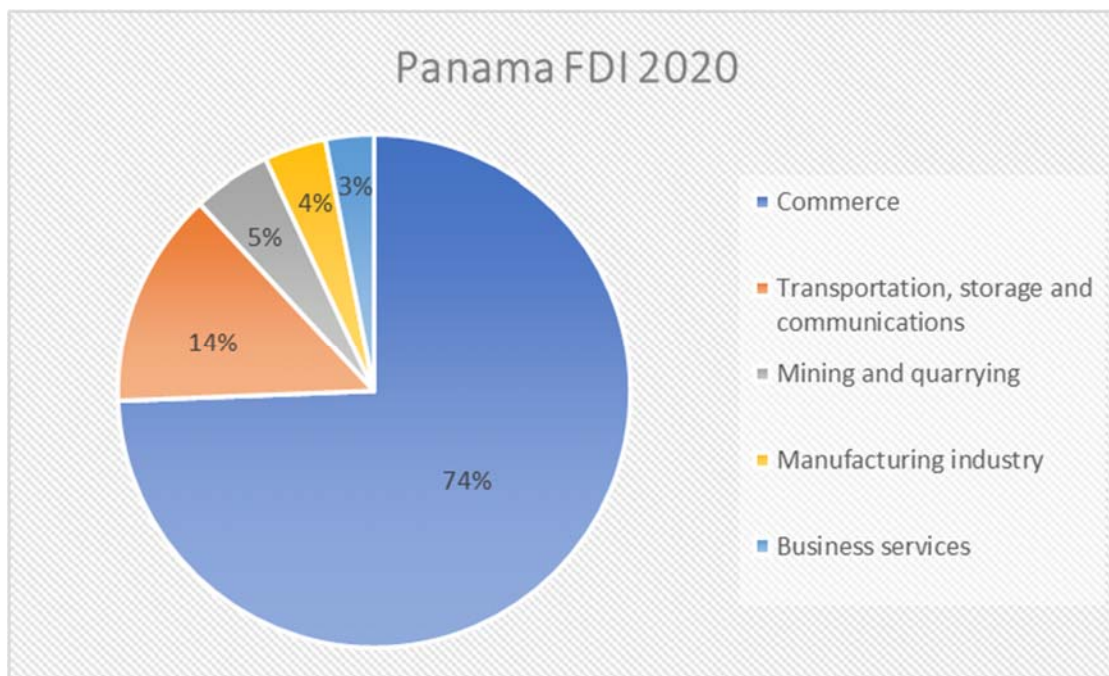
Note. Based on data from the Central Bank of Ecuador (2022)

## FIGURE 10

*Main sectors of Panama's FDI in Ecuador in 2010*



Note. Based on data from the Central Bank of Ecuador (2022)

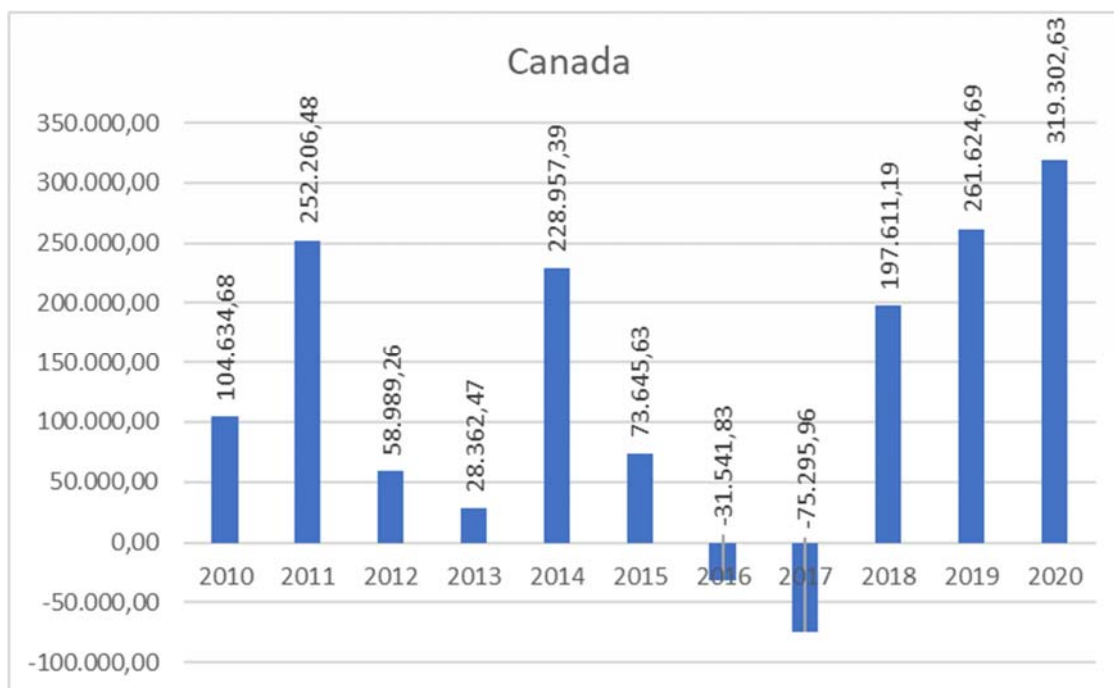
**FIGURE 11***Panama's main FDI sectors in Ecuador in 2020*

Note. Based on data from the Central Bank of Ecuador (2022)

FDI from Canada to Ecuador from 2010 to 2020 shows a growth of 205.15% (see Figure 12). Regarding the economic sectors of Ecuador that received the highest percentage of FDI from Canada, in 2010 the mining and quarrying sector received 76.48% of the total Canadian investment in that year (see Figure 13), and in 2020 the communal, social, and personal services sector received 22.39% of the total Canadian investment (see Figure 14). It can be seen, therefore, that, from Canada, in the period analyzed, there have been changes in the economic sectors to which FDI has been directed from Canada.

**FIGURE 12***Canadian FDI in Ecuador 2010-2020*

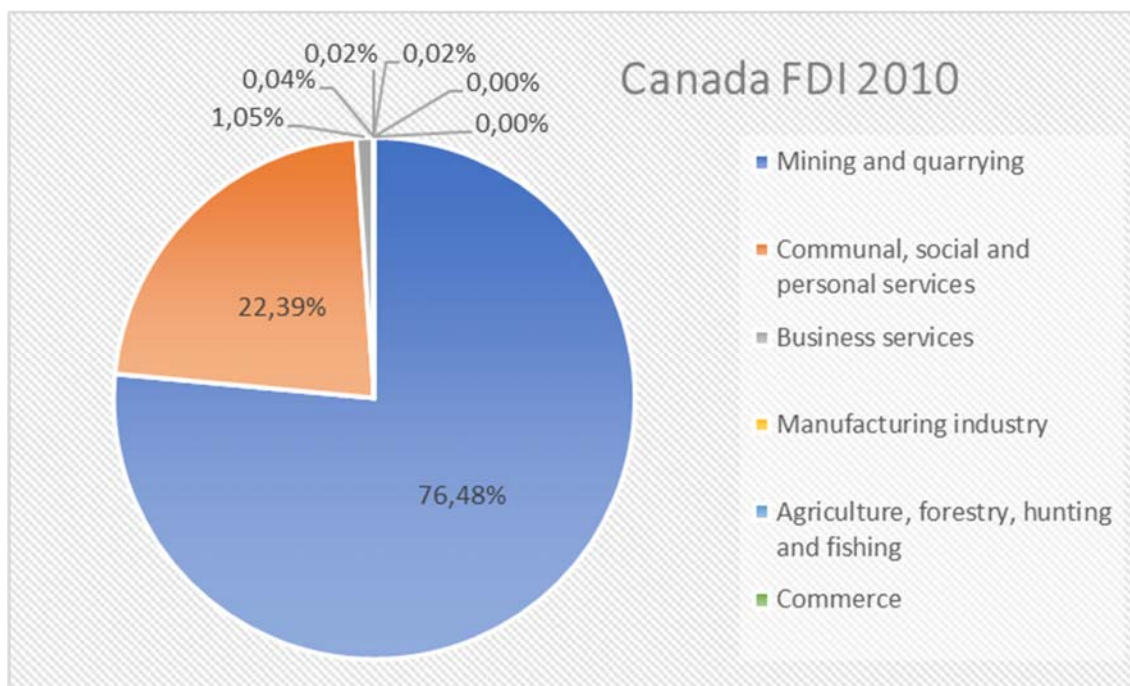




Note. Based on data from the Central Bank of Ecuador (2022)

FIGURE 13

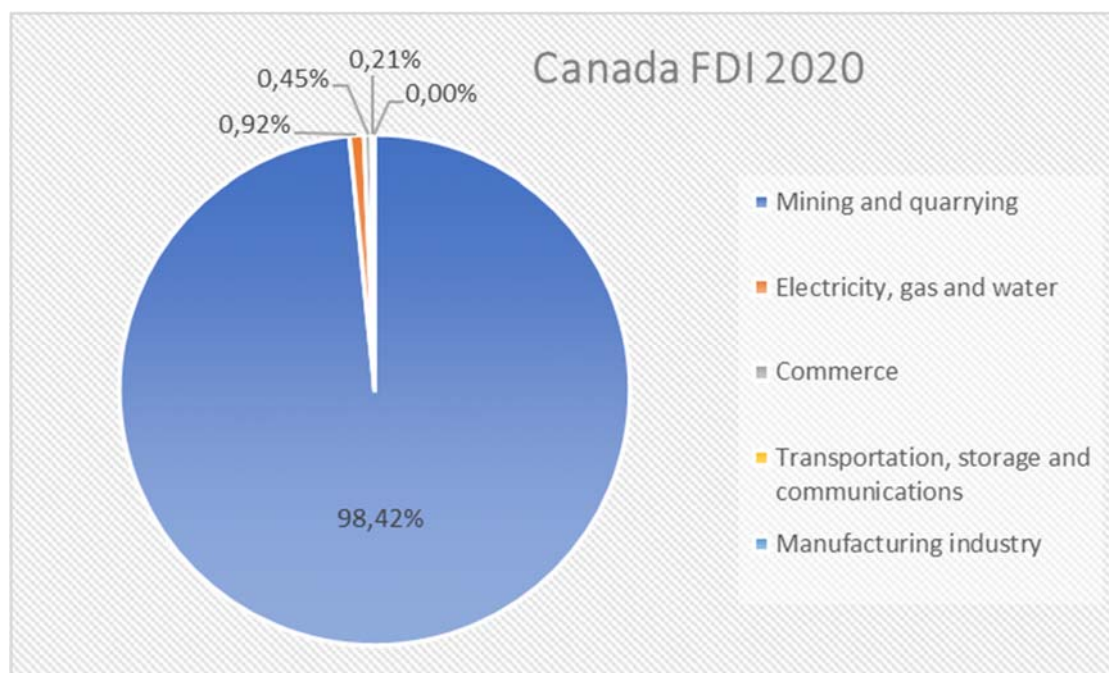
Main sectors of Canadian FDI in Ecuador in 2010



Note. Based on data from the Central Bank of Ecuador (2022)

## FIGURE 14

*Canada's main FDI sectors in Ecuador in 2020*

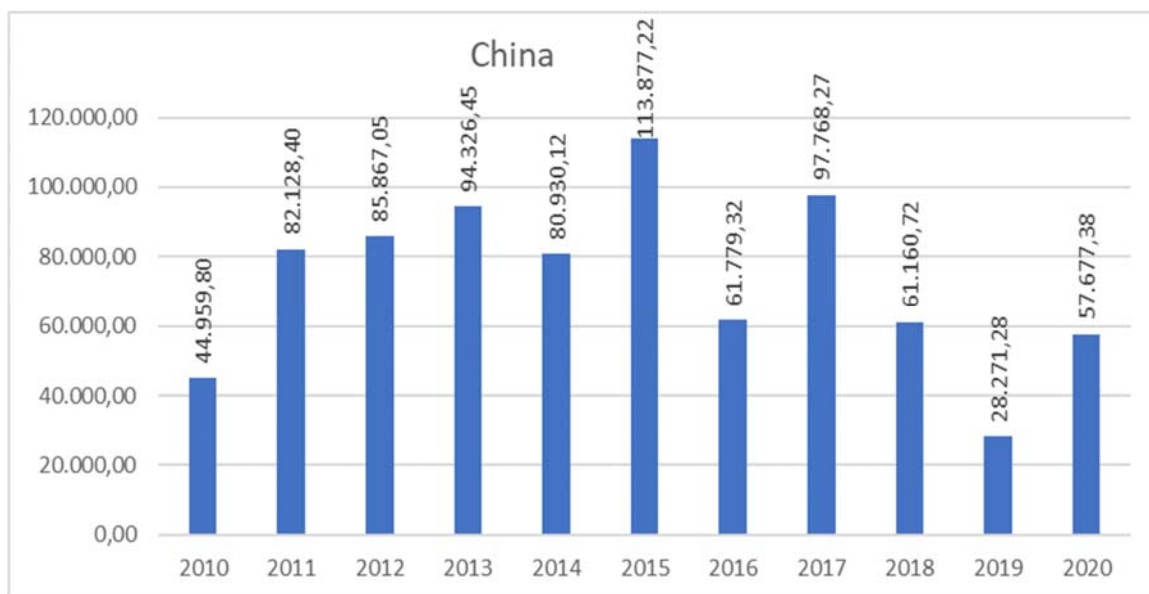


Note. Based on data from the Central Bank of Ecuador (2022)

FDI from China to Ecuador from 2010 to 2020 shows a growth of 28.28% (see Figure 15). Regarding the economic sectors of Ecuador that received the highest percentage of FDI from China, in 2010 the mining and quarrying sector received 99.40% of total Chinese investment in that year (see Figure 16), and in 2020 the highest percentage of investment went to the mining and quarrying sector, which received 99.27% of total Chinese investment in that year (see Figure 17). It can be seen, therefore, that Chinese investment within the economic sectors of Ecuador has had a focus on the same sector in these years, taking into account the period under analysis.

## FIGURE 15

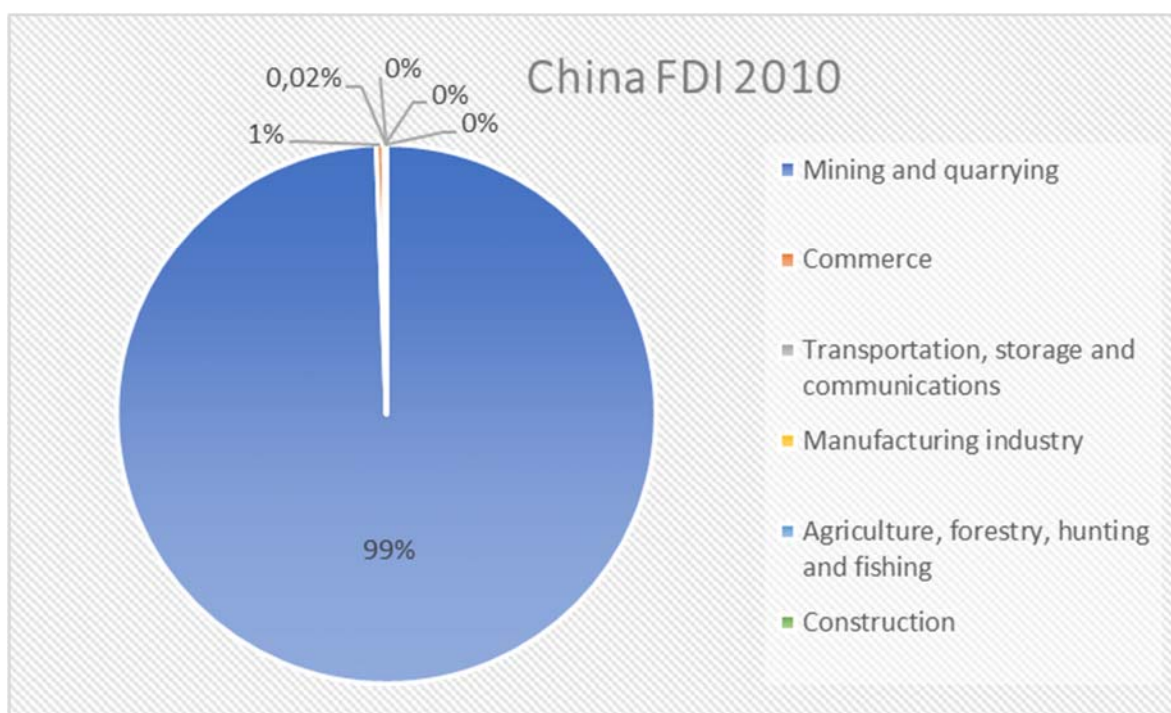
*Chinese FDI in Ecuador 2010-2020*



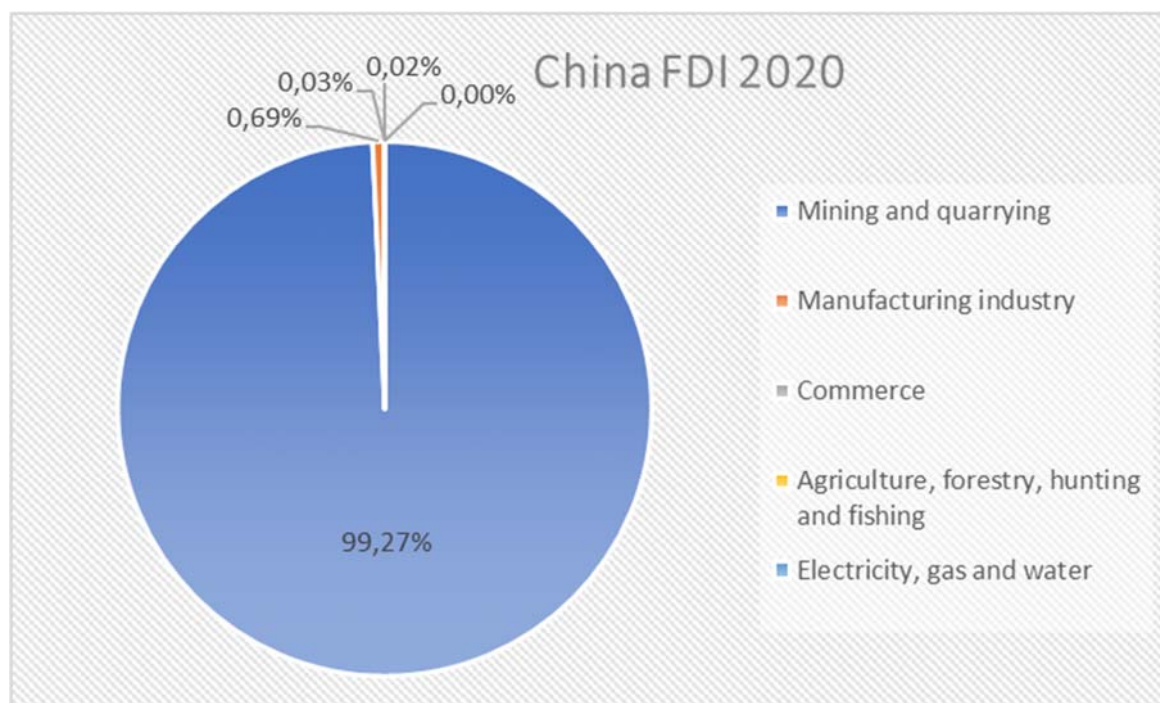
Note. Based on data from the Central Bank of Ecuador (2022)

**FIGURE 16**

*Main sectors of Chinese FDI in Ecuador in 2010*



Note. Based on data from the Central Bank of Ecuador (2022)

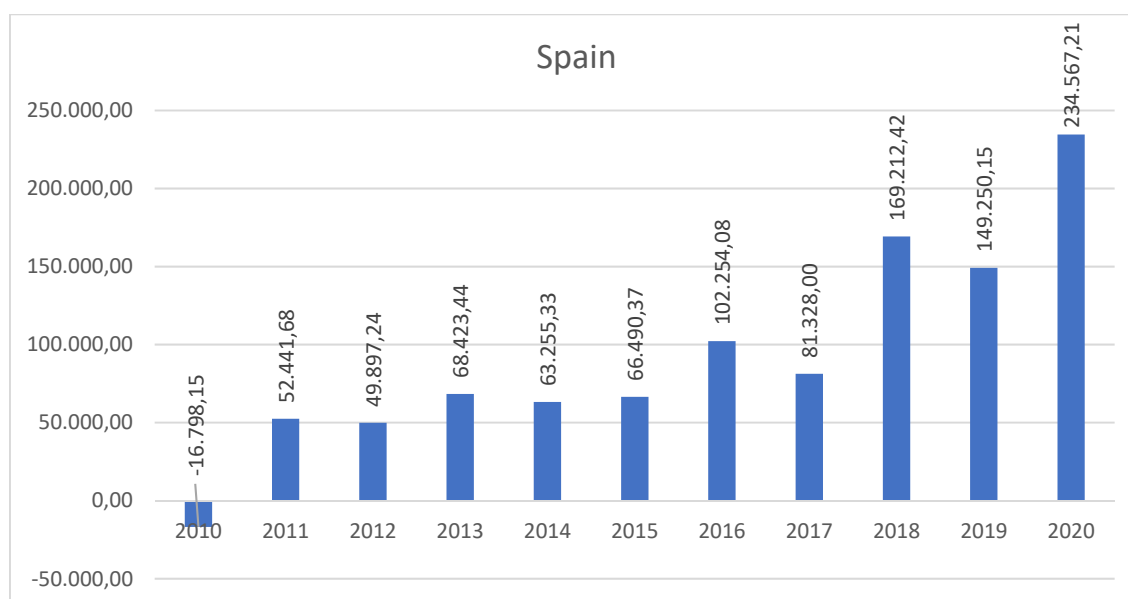
**FIGURE 17***China's main FDI sectors in Ecuador in 2020*

Note. Based on data from the Central Bank of Ecuador (2022)

FDI from Spain to Ecuador from 2010 to 2020 presents a growth of 1496.39% (see Figure 18). It is worth mentioning that the FDI data presented as negative represent the years in which the value of investment that left Ecuador to Spain was higher than the value of investment that entered Ecuador from Spain. Regarding the economic sectors in Ecuador that received the highest percentage of FDI from Spain, in 2010 the mining and quarrying sector received 64% of the total Spanish investment (see Figure 19), and in 2020 the construction sector received 68.99% of the total Spanish investment that year (see Figure 20). With this, it can be observed, within the period of analysis, that the sectors on which Spanish investment was focused changed in these years.

**FIGURE 18***Spanish FDI in Ecuador 2010-2020*

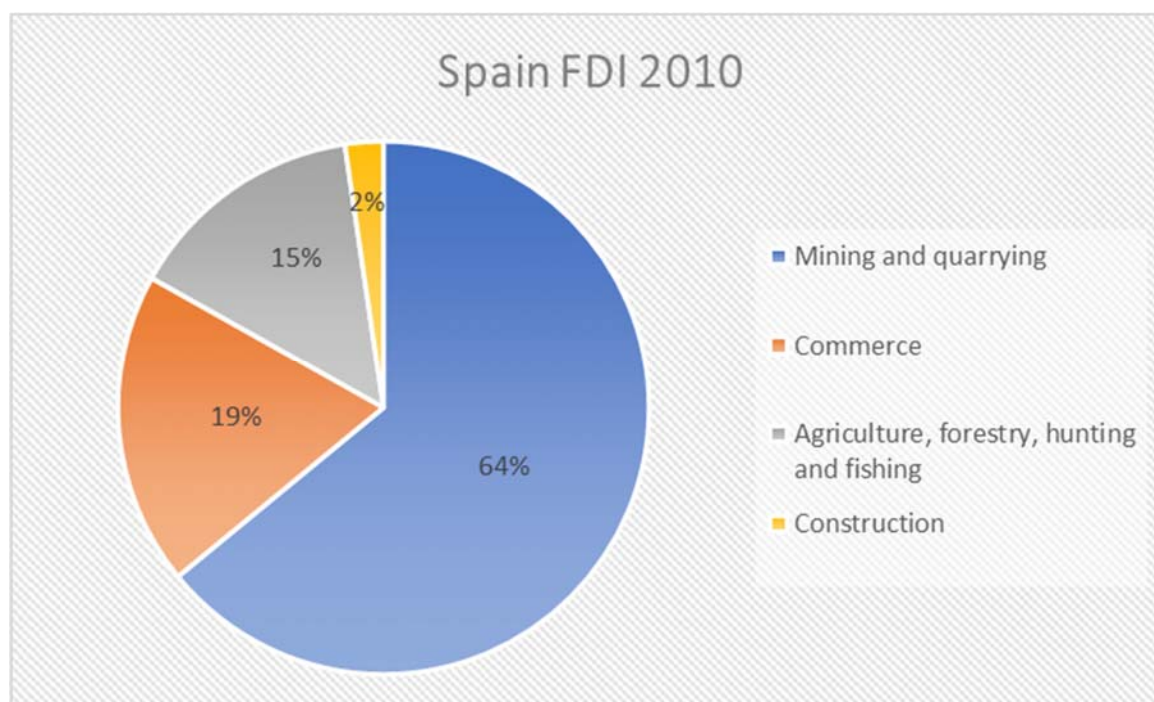




Note. Based on data from the Central Bank of Ecuador (2022)

## FIGURE 19

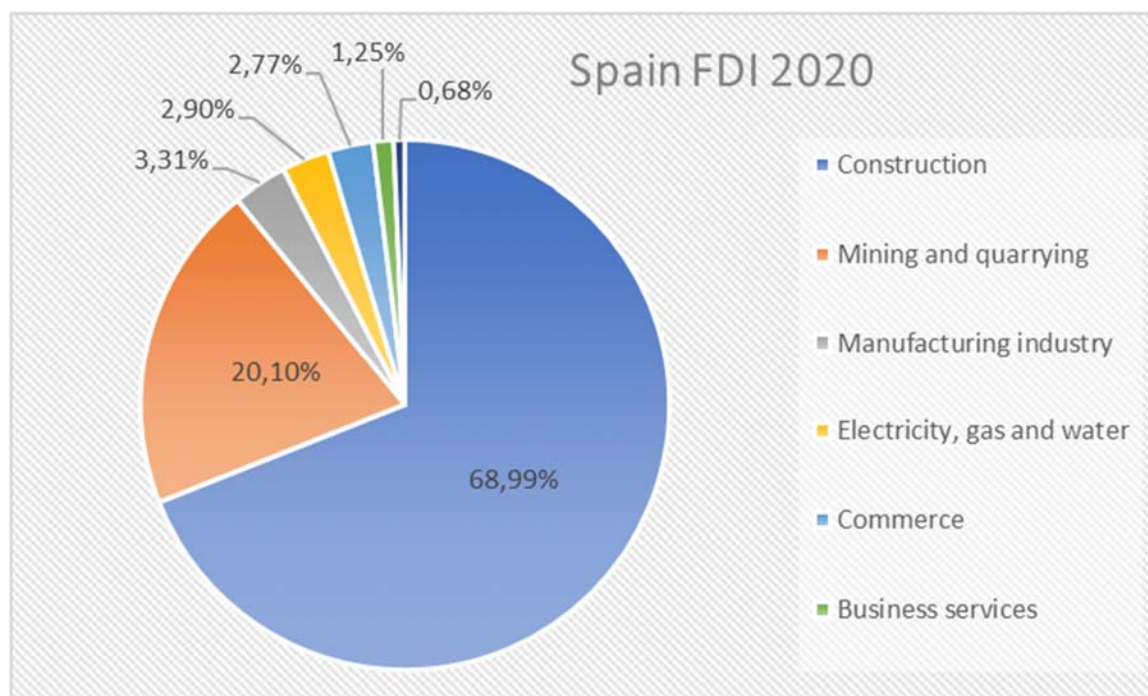
*Main sectors of Spanish FDI in Ecuador in 2010*



Note. Based on data from the Central Bank of Ecuador (2022)

**FIGURE 20**

*Spain's main sectors of FDI in Ecuador in 2020*

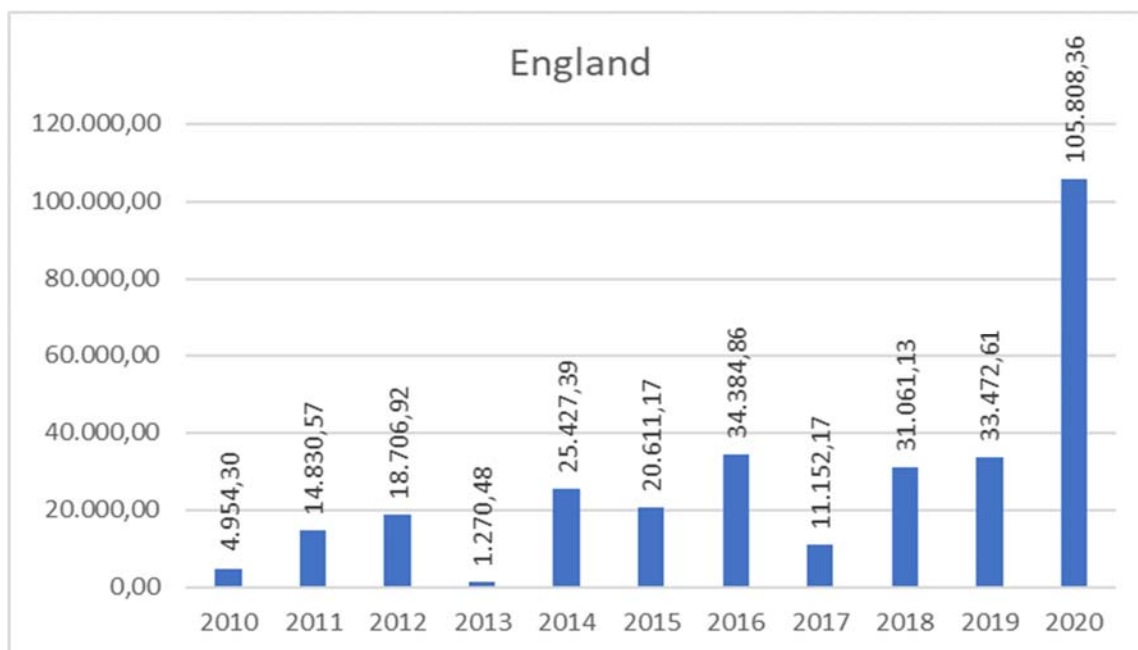


Note. Based on data from the Central Bank of Ecuador (2022)

FDI from England to Ecuador from 2010 to 2020 shows a growth of 2035.68% (see Figure 21). Regarding the economic sectors of Ecuador that received the highest percentage of FDI from England, in 2010 the transportation, storage, and communications sector received 82.39% (see Figure 22). In 2020 the business services sector received 61.13% of the total investment from England (see Figure 23). It can be seen, therefore, within the period of analysis, that investment in these years was more divided and changed its focus on economic sectors.

**FIGURE 21**

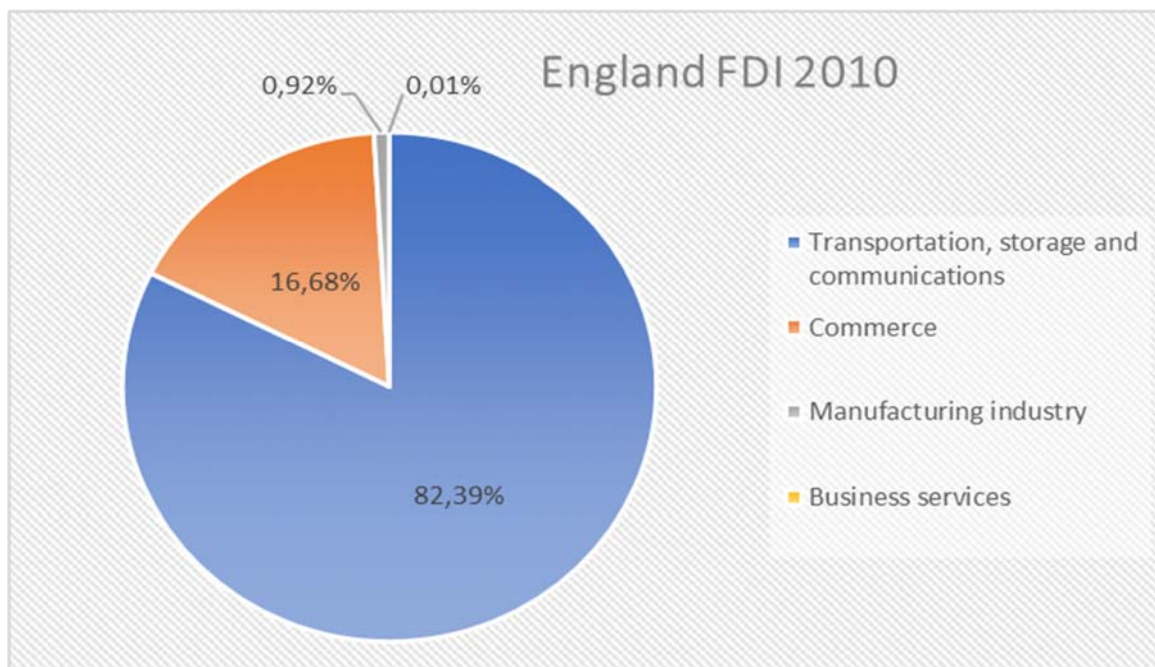
*England FDI in Ecuador 2010-2020*



Note. Based on data from the Central Bank of Ecuador (2022)

## FIGURE 22

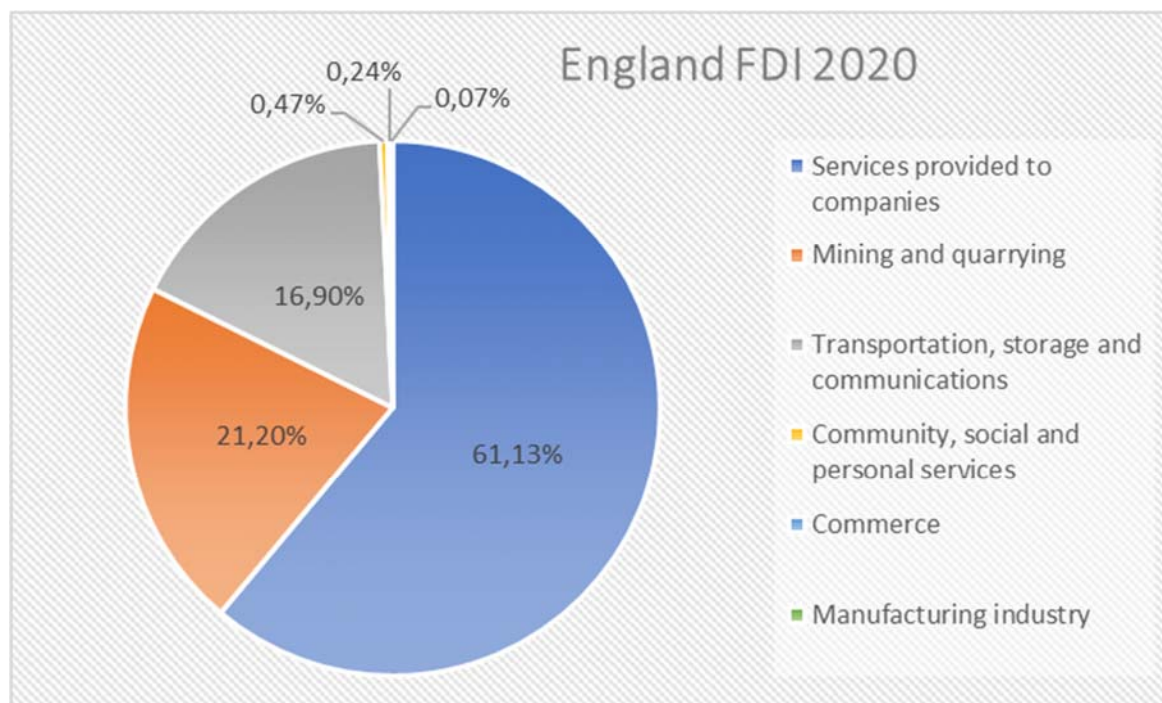
*Main sectors of FDI from England in Ecuador in 2010*



Note. Based on data from the Central Bank of Ecuador (2022)

**FIGURE 23**

*England's main FDI sectors in Ecuador in 2020*



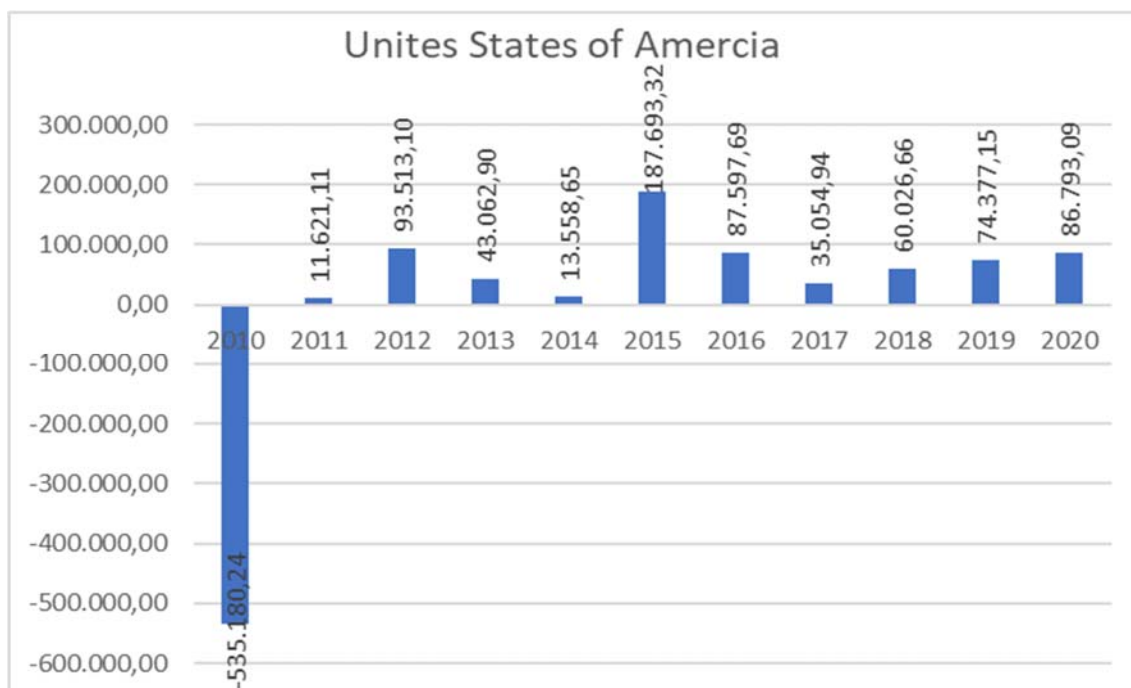
Note. Based on data from the Central Bank of Ecuador (2022)

FDI from the United States of America to Ecuador from 2010 to 2020 presents a growth of 116.22% (see Figure 24). It is worth mentioning that the FDI data presented as negative represent the years in which the value of investment that left Ecuador to the United States of America was higher than the value of investment that entered Ecuador from the United States of America. Regarding the economic sectors in Ecuador that received the highest percentage of FDI from the United States of America, in 2010 the trade sector received 60% of the total U.S. investment that year (see Figure 25), and in 2020 the business services sector received 45.57% of the total U.S. investment (see Figure 26). It can be seen, therefore, that, from the United States of America, in the period of time analyzed, there has been a change of focus of interest in terms of the economic sector of Ecuador in which it has invested.

**FIGURE 24**

*United States FDI in Ecuador 2010-2020*

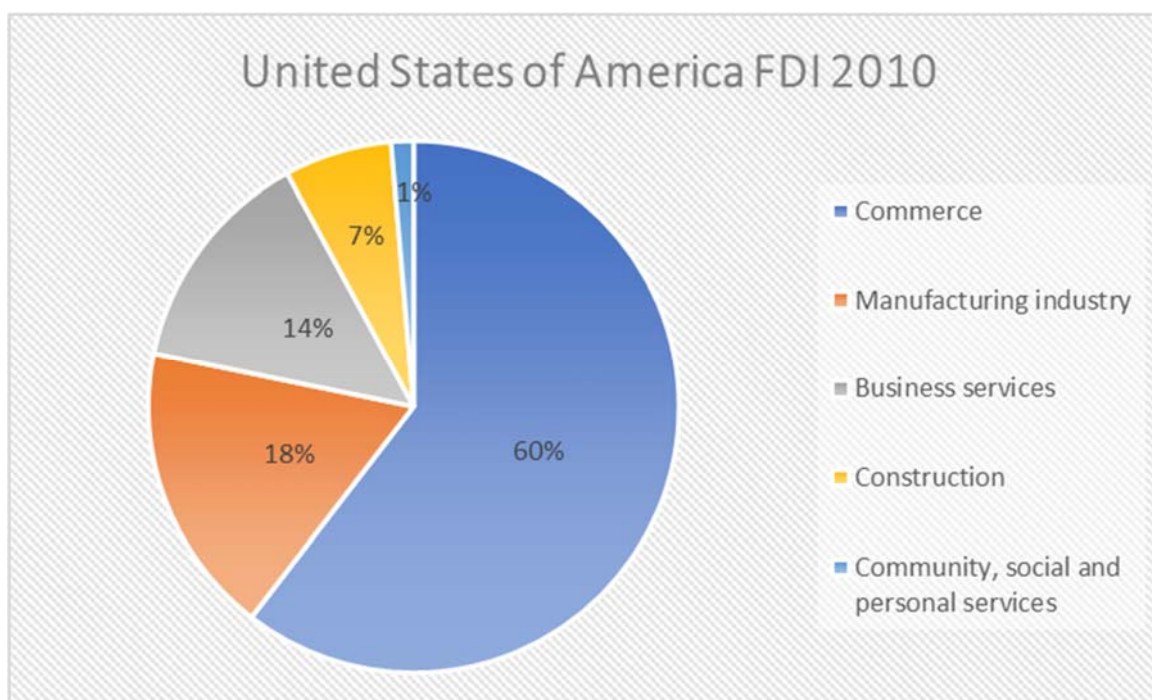




Note. Based on data from the Central Bank of Ecuador (2022)

**FIGURE 25**

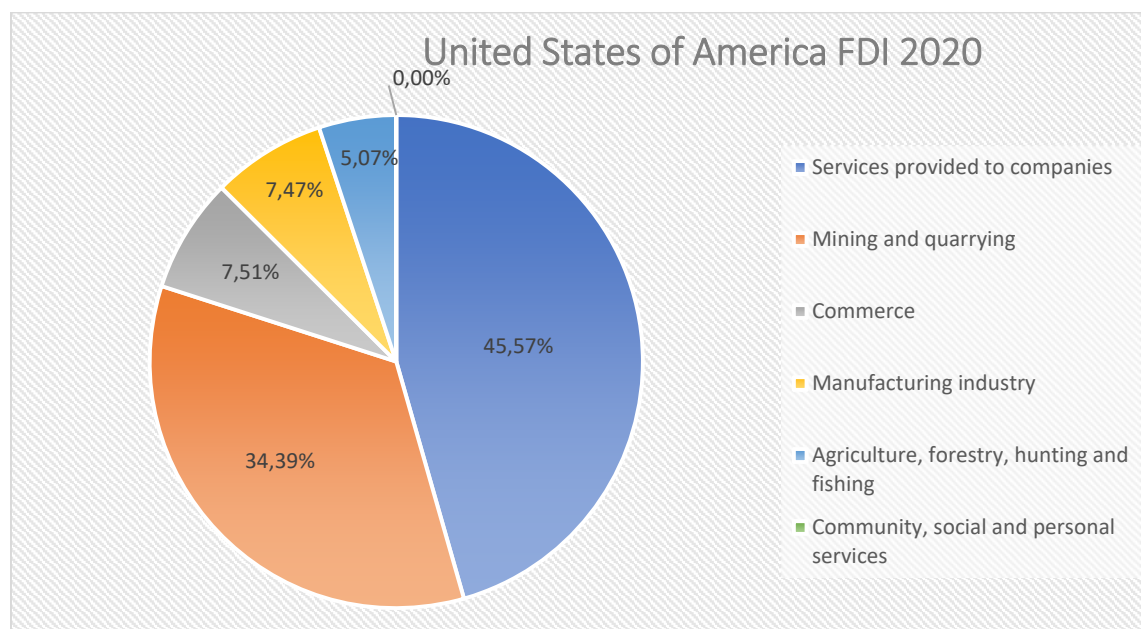
*Main sectors of FDI in the United States in Ecuador in 2010*



Note. Based on data from the Central Bank of Ecuador (2022)

**FIGURE 26**

*Main sectors of FDI from the United States of America in Ecuador in 2020*



Note. Based on data from the Central Bank of Ecuador (2022)

## Discussion

FDI within a country, whether developing or developed, is a very large source of financing for the host country. It contributes to generating local jobs through the entry and establishment of foreign companies in the national territory. It also contributes to an increase in tax collection since when a foreign company enters, it must, just like domestic companies, comply with the payment of taxes (Mamingi and Martin, 2018).

It should also be known that achieving FDI is not an easy task. Since investors are very cautious when choosing the territory in which they will invest, they will always look for places that provide the greatest security in order to ensure that their investment will be safe and that it will produce the expected benefits and profits. For this reason, it is very important to know what makes a country attractive to investors. One of the indicators used at the international level to know about the security of a country in terms of foreign investments is the so-called *country risk*. This indicator reflects the conditions in which the recipient country finds itself in order to meet its foreign debt payments (Sánchez et al., n.d.). Another way of defining country risk according to Lindao et al. (n.d.) refers to country risk as the surcharge paid by comparing a zero-coupon bond of a risky country against the price of a risk-free bond, both bonds having the same payment term. The factors taken into account for this indicator are economic factors (level of national unemployment, inflation, balance of payments) and political factors (socio-political and administrative-regulatory). Country risk is calculated taking into account that every hundred points are equivalent to one percentage point, for example, if it reaches 1450 points, it implies that the bonds of that country should yield 14.50 percentage points above the rate of a risk-free bond.

With reference to data from the Central Bank of Ecuador (2021), Ecuador's rating according to the country risk index between 2010 and 2020 has not had very strong variations since the score of this indicator did not exceed 1000 points in most years within this period of analysis. However, in the month of March 2020 the country risk had a very high peak with 6,063 points, precisely when the COVID-19 pandemic began (see Appendix A). When the

country risk exceeds 1000 points it is considered a very high country risk, which means that, within the period of analysis, 2020 was the last year in which Ecuador was considered a high risk country due to the political and economic problems it went through with price speculation, corruption problems, and paralysis of the main economic sectors. According to figures from the Emerging Markets Bond Indicator (EMBI) on November 30, 2020. Ecuador had a score of 1065 points, compared to its neighboring countries Peru with 161 points and Colombia with 228 points of country risk. Another comparison on November 30, 2020, is with Brazil, one of the Latin American countries with the highest FDI received, which obtained 268 points of country risk, a much lower score than the one presented by Ecuador, thus making Brazil appear as a safer country for investments. With this, Ecuador demonstrates that its political and economic system was greatly destabilized by the pandemic.

Within Latin America, foreign investments have become a key component for these emerging economies. According to ECLAC data (2020) the Latin American country that in 2020 received the most FDI was Brazil with 43% of the total FDI in Latin America and the Caribbean. Brazil's ability to attract more FDI within the region is due to the institutional changes it has made. One of them has been the creation and implementation of the Investment Attraction Program. Brazil also has many characteristics that make it attractive to foreign investors, such as the fact that it has a strategic location, a diversified economy, a relatively low external debt compared to other countries in the region, and anti-corruption programs that seem to be producing results but above all it shows the country's interest in improving its situation by reducing serious problems such as corruption that affect it in all areas. Brazil also offers short-term benefits or opportunities within its industries such as agribusiness and aeronautics. In addition, these opportunities are also within its main FDI recipient sectors which are the oil and gas extraction sector; motor vehicles; trailers; semi-trailers and associated parts; and in the financial and ancillary services sector (Santander, 2022).

On the other hand, Ecuador, as some other countries in the region, has been characterized by depending on extractivism, a process that refers to the exploitation of natural resources in large volume and intensity destined for sale abroad. Extractivism is considered as a model of economic growth promoted by transnational companies, with environmental, social and health consequences and is usually focused on mining, agriculture, or oil (Portillo, 2014). This is why, when referring to the appeal countries have for attracting FDI, according to Gutman et al. (2016), Ecuador has important aspects of interest to attract foreign investors, among which are the natural resources. However, the Ecuadorian state is mostly financed by the sale of raw materials, being oil the most important and representative. The extraction of other types of minerals such as gold and silver, which are mainly destined for export, also represents one of the main and strongest economic sectors in Ecuador. According to data from the Central Bank of Ecuador, between 2010 and 2020 the main sector receiving FDI was the exploitation of mines and quarries, thus demonstrating that this country depends mostly on the sale of its raw materials.

The fact that the economy of a country depends to a high degree on the extraction and sale of minerals is not something that is seen as positive. Ecuador is a country fortunate enough to have resources in high demand globally, which has, to some extent, made it fall into the comfort of depending on what nature has offered, leaving aside the search for new sources of income. The data show that the FDI that enters Ecuador goes mostly to the mining sector, thus demonstrating that FDI is not being used for the creation and promotion of new industries, which is very detrimental because with this the only thing that is being done is to further deepen our dependence on extractivism. Countries such as Mexico and Brazil, which have as one of the main sectors receiving FDI the manufacturing industry and the motor vehicles, trailers, semi-trailers and associated parts sector, respectively, have many more possibilities of potentialization and expansion of these sectors which, unlike the mining sector, which is in the hands of the State and very few private hands, have the possibility of expansion since by their nature they have the capacity to create new factories, businesses and companies that will not only be in the hands of the State, but also in the hands of the private sector. These types of sectors are the ones that attract the attention of foreign investors because they are innovative companies that offer new products or new services that will be seen as something innovative for the region and the world.

For Ecuador, which is a developing country, it would be very important to be able to keep its foreign investors, but Ecuador's capacity to keep these investors has not been so good, since during the period analyzed, the only country that Ecuador kept among its largest investors was Canada. In the case of Mexico, in 2010 this was the largest investor in Ecuador; in 2011 it moved to third place and in 2014 it disappeared from the list of the top

ten foreign investors in Ecuador. The reasons have been analyzed and some have been identified; for example, according to ECLAC, in 2014 there was a strong economic decline in the region. In addition, in that same year there was another problem, the Mexican national currency suffered a strong depreciation against the dollar. These two situations within the region largely explain the decline in FDI entering the region. Mexico, which in 2010 was the largest FDI investor in Ecuador, was affected in 2014 with a 15% depreciation of its national currency. This also shows that in this specific case it was not Ecuador that was to blame for not being able to keep Mexico as the main investor but rather it was problems affecting Mexico that caused this situation.

Among the reasons that can be analyzed for the fact that Ecuador in the period analyzed has not managed to maintain the same flow of investment from the same countries of origin, are the policies of the governments that led the country in this period. In 2010, Rafael Correa was at the helm of office ending his term of presidency in 2017; then Lenin Moreno was president until 2021. Former president Rafael Correa had policies that negatively affected FDI among those is the decision to terminate investment treaties with countries such as Germany, China, United States, Argentina, Chile, and others. Additionally, guarantees for investors were reduced because there were no external dispute resolution mechanisms between Ecuador and foreign investors because Correa claimed that Ecuador was a country that could resolve investment treaty disputes on its own without ceding its sovereign jurisdiction (Mena ,2010).

The rupture of these investment treaties as a result of the decision of former President Rafael Correa was justified with the explanation that they were not helping in any way to increase Ecuador's FDI since, according to his opinion, these treaties were going against some articles of the Constitution that refer to sovereignty and public interest. This is how it caused one of its strategic partners, such as the United States, to withdraw large amounts of FDI from Ecuador. This is demonstrated in the data, which shows in 2010 high negative figures with reference to U.S. investment in Ecuador It is also seen that FDI in the following years until 2020 has been considerably low.

In this same period of Correa's presidency, other decisions affected the attraction of FDI. Rafael Correa was against the ISDS (Investor-State Dispute Settlement System) and BITs (Bilateral Investment Treaties) which are guarantees for investments of foreign companies. Additionally. In the Production Code of 2011, an Environmental Promotion Law was implemented, which raised the tax on the outflow of foreign currency from 2% to 5%, which is still in force today. This presents a problem for investors as their ability to take out of Ecuador the profits generated by their investments in the country is hindered. This decision affected FDI, which in data shows a strong decrease in 2012. It should be clarified that the attraction of FDI depends not only on good policies but also on the creation of an environment that facilitates economic and commercial relations and transactions. It is necessary to ensure that the environment is adequate through factors such as the reduction of time, costs, procedures and permits, as well as the guarantee of legal stability.

On the other hand, former President Lenin Moreno, in his term of presidency, tried to encourage foreign countries to invest in the country. With this objective, the draft Law for the Promotion and Productive Attraction of Foreign Investment was established, which stipulated tax exemptions for new or existing companies investing in Ecuador (National Government of Ecuador, 2022). With this project, Ecuador benefited by obtaining a fairly high increase, especially in the years 2017 and 2018, with a peak in the flow of FDI in 2018; this being one of the highest peaks within the analyzed period. According to data provided by the Central Bank of Ecuador, FDI in Ecuador had a 126.5% growth in 2018, compared to 2017. Therefore ,FDI policies strongly influence the flow received in the country.

The COVID-19 pandemic, which started in 2019, not only affected people's health, but also had serious repercussions on the economy of countries worldwide. The restrictions implemented to prevent the spread of this virus and to help health systems that were overburdened, as was the total isolation, came to have a huge impact on the economic growth of countries because this isolation brought with it the closure of several jobs, the stoppage of several sectors of production, the decrease in consumption of several products, among others. FDI was also affected; there were sharp drops in FDI flows throughout the region. However, Ecuador was one of the countries that did not present such a strong fall in FDI flows, due to the fact that, during the pandemic, foreign investments were destined to economic sectors other than the traditional ones, since the latter were paralyzed during the pandemic. One of the new sectors that began to receive large amounts of FDI was the renewable energy sector, where large

investments were made: approximately 330 million dollars in the Zero-E company and in the Solarpack company (ECLAC, 2021).

Ecuador has proven to be a country with little stability in economic, political and social areas, which is a serious problem when it comes to attracting FDI, since these are the factors that make a country be considered insecure in the eyes of foreign investors. On the other hand, Latin American countries such as Brazil and Mexico have been able to implement adequate plans and strategies to achieve a strong attraction of FDI, making them the two countries that receive the most FDI in the Latin American region. Brazil can be seen by Ecuador as a model to follow, with the objective of learning from this country about the best strategies that allow it to be attractive to foreign companies. There are many key points for a country to attract a fairly high FDI and some of them are: establishing connections with allies that help in the search for entities interested in investing; managing incentives, since a foreign investor will be attracted by incentives that help them achieve their goals in the destination of their investments; maintaining transparency throughout the process by providing investors with all the necessary information and data; and providing guarantees by offering legal protections in the investment process.

## **Conclusion**

This work had the objective of analyzing FDI flows in Ecuador within the period between 2010 and 2020. The sections that made up this work were the theoretical framework, literature review, results and discussion within which reference was made to some concepts of FDI, defining it as the search for common interests between two entities that benefit the economy of the recipient countries having as main actors the multinationals and transnationals. A historical account of FDI in Ecuador was made, from its beginnings to the present, demonstrating that Ecuador is a country quite dependent on its raw materials. The data provided by the Central Bank of Ecuador was used to analyze the most relevant variations of FDI flows, having 2012 and 2018 as the years with the lowest and highest FDI flows respectively. The sectors that receive the most FDI in Ecuador were also analyzed, making a comparison between 2010 and 2020; and the main foreign investors were also determined, which were Mexico in 2010 and Canada in 2020. In addition, the reasons why the mining sector continues to be the main recipient sector of FDI were reflected and finally, the shortcomings of Ecuador in attracting FDI were also analyzed, showing that the policies implemented by the passing governments were not the most favorable. Finally, with the objective of establishing recommendations, Brazil, the Latin American country with the largest flow of FDI in the region, was taken as an example, analyzing some of its successful strategies, since its diversified economy has led it to be the country it is today.

With this research it has been possible to determine that FDI in Ecuador has shown a relatively stable growth throughout the period between 2010 and 2020. There are also periods of high growth that can be explained as results of good state policies on FDI. We also find periods of decline in the flow of FDI that are the result of inadequate state policies as well as other factors that are related to political, economic or health crises, such as the one corresponding to the pandemic by the virus COVID-19. The mining sector continues to be the largest recipient of FDI, which can be seen as a problem for the country since it deepens our dependence on extractivism as the main source of economic income. It was also possible to identify some of the main weaknesses of Ecuador that have prevented it from being seen as attractive to investors; among these are the political, social and economic mismanagement that has led to a fairly large instability. On the other hand, certain strategies are identified as adequate; for example, the attraction of FDI to non-traditional sectors such as the renewable energy sector, which helped FDI in Ecuador during the first months of the pandemic not to suffer a large decrease. An international comparative analysis is always a useful tool with the objective of learning from those who are managing good and better strategies. This is the case of Brazil which has demonstrated a great capacity to attract the highest percentage of foreign investment in the region. As a model to follow, it is suggested that Ecuador establishes connections with allies that help in the search for entities that are interested in investing, provides incentives for foreign investors, be transparent in all processes, and finally provides guarantees by offering legal protections in the investment processes.

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## APPENDIX A

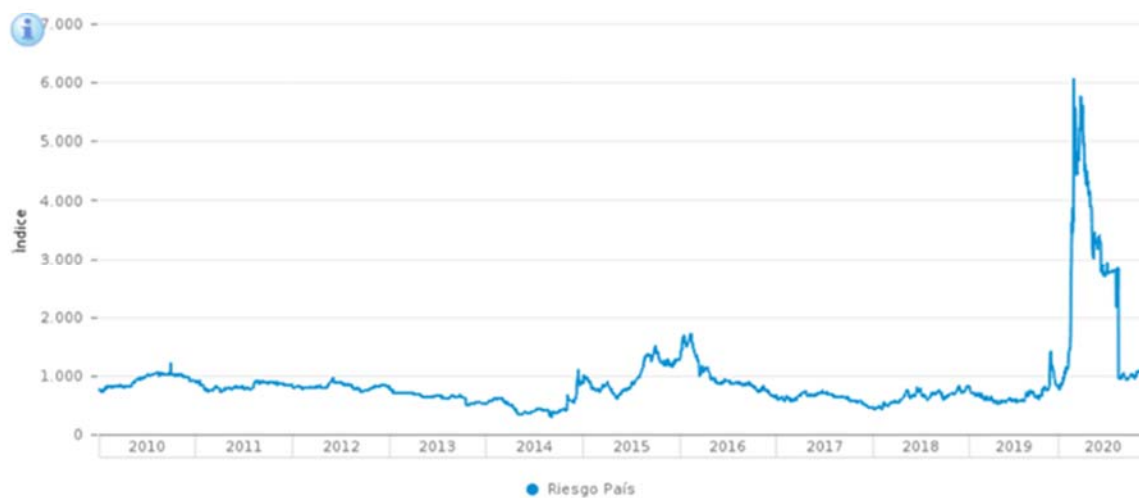
## Ecuador Country Risk: 2010-2020



Banco Central  
del Ecuador

## RIESGO PAÍS - EMBI

Índice



Note. Central Bank of Ecuador (2022)