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**Theme:**

Vehicle import plan from China for the company Innovauto S.A.

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## **DEDICATORY**

This research work is dedicated to my daughters, my husband, my parents and my brother, for their unconditional support provided during all the years of my studies.

## **GRATITUDE**

First of all, I thank God for allowing me to complete my studies, thanks to each teacher at the University of Azuay who has contributed to my academic training, especially my project director Mgt. Gabriela Bonilla. I thank Innovauto S.A. for allowing me to carry out my project for the company. I also thank my family for their unconditional support.

## **Summary**

This research focused on the development of a vehicle import plan from China to Ecuador. China was selected as the country of origin of vehicles due to its variety of merchandise, low costs, and excellent quality. INNOVAUTO S.A. has already imported vehicles with intermediaries and not directly, so there is the precedent that with this investigation the company will have the tools to carry it out correctly. The most important results first start from the analysis of the local market and the company, to know its positioning considering positive and negative factors. Then, the vehicles to be imported were selected determining their characteristics for the benefit of the population. After this, the selection of the supplier that was most in line with the needs of the company was made. Finally, the import plan was elaborated with which it could be concluded that the company will see real benefits in the direct import of only one of the vehicles, this based on the final cost of the Chinese product already in the Ecuadorian market.

## **Abstract**

This research focused on the development of a vehicle import plan from China to Ecuador. China was selected as the country of origin of vehicles due to its variety of merchandise, low costs, and excellent quality. INNOVAUTO S.A. has already imported vehicles with intermediaries and not directly, so there is the precedent that with this investigation the company will have the tools to carry it out correctly. The most important results first start from the analysis of the local market and the company, to know its positioning considering positive and negative factors. Then, the vehicles to be imported were selected determining their characteristics for the benefit of the population. After this, the selection of the supplier that was most in line with the needs of the company was made. Finally, the import plan was elaborated with which it could be concluded that the company will see real benefits in the direct import of only one of the vehicles, this based on the final cost of the Chinese product already in the Ecuadorian market.

**Keywords:** imports, China, vehicles, Ecuador, company.

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## **Introduction**

The purpose of this study is to prepare an import plan for vehicles from China to Ecuador, where the study of the national market and the position of Chinese vehicles in the Ecuadorian market will be considered, in addition to knowing the reality of the company based on its history, strengths, and current ability to carry out this plan. Importantly, China has become the largest car producer in the world as of 2009, with around 14 million vehicles sold in various countries around the world (Auto Magazine, 2020).

Continuing with this succession over time, the Chinese automotive industry has continued to expand since 2010, becoming consolidated as of 2015 in Ecuador, since it includes in its products great technological development, affordability, competitiveness, with a focus on various segments and groups of markets, this has created an unprecedented competitive situation for the entire national market.

Referring to the growing demand for Chinese vehicles in the country, this do with several characteristics related to their performance and their low prices compared to traditional brands. As reported by the Ecuadorian Chamber of Commerce, the commercialization of these vehicles increased from 15% to 22% in recent years, with an estimated average of 23,000 units that were delivered in 2021.

Going back in time, in 2019 the demand increased in relation to the sale of traditional brands. On this scenario, Ecuador continues to consider the introduction of Chinese vehicles over other traditional brands, especially due to the advantage it has in terms of price, this being a striking factor for buyers, which in turn has given them greater competitiveness in the market and that has also led the automotive market to energize its economies to adapt to the advantages offered by these products, such as price, warranty,

accessibility and technology. Therefore, this study seeks to develop a plan to import vehicles from China for the company Innovauto S.A. from the city of Machala-Ecuador.

## **Chapter I**

### **Analysis of the Company and Automotive Sector in the City of Machala-Ecuador**

#### **1. Introduction**

Over time, foreign trade has been an important driving force for the development of countries. This allows, on the one hand, to expand the markets and consumer portfolio for our national products, and on the other hand, to have in our territory a wide variety of product options that contribute to the productive growth of our country as well as present important competition that drives our industries to always seek improvement and excellence.

The automotive sector in the country has been characterized by its dynamism in the commercialization of models that improve and innovate those that already exist. In fact, talking about innovation has specific issues such as price improvement, brand substitution, etc. This sector, which for the most part is only dedicated to the commercialization of vehicles of different ranges, tries not only to be based on business profitability but also to provide job opportunities and job creation, which are mostly those of the vehicle assembly line, as well as the vendors within the dealerships, so as the delivery drivers who are in charge of the logistics of products at a national level.

In the city of Machala, however, is booming and growing because the dealerships are increasing, since they offer various promotions and brands according to the needs of each client. For this point it will also be important to analyze the market trends, the quality offered in the products and the new market niche that is growing in this city.

#### **1.1 Theoretical Framework**

##### **1.1.1 Concept of Foreign Trade**



Etymologically foreign trade is derived from the Latin *commercium*, which means trade. This originates from the noun *merx* o *mercis* which means merchandise and finally from the suffix *com* which means meeting. In general terms, trade is defined as activities in which goods are sold or bought for resale or use (Torres & Flores, 2015).

The word exterior is derived from the Latin *extertus* which means outside, this word is made up of *ex* which means outside of; the suffix *ter* indicating belonging to an even member. Taking these definitions into account, foreign trade is defined as a negotiation where the sale, purchase, exchange of goods and services take place outside their natural market. (Torres & Flores, 2015).

Foreign trade is a set of commercial transactions for the purchase and sale of a product. By means of this the foreign currency can enter through exports covering specific demands that may arise within a market, for this to be carried out it is important to point out the need for agreements and cooperation agreements that facilitate all planned transactions for the benefit of an organization or a country (Torres & Flores, 2015).

The term foreign trade encompasses a vision at the international level through the use of foreign exchange; the regulations that intervene so that the organizations are the most benefited, must be suitable for both parties during the exchange of products in new countries, improving their income since they are now intervening in foreign markets (Ballesteros, 1998).

### **1.1.2 The main theories of Trade (3 or 4 theories)**

Among the main trade theories, three are presented: absolute advantage, comparative advantage and the Pure and Monetary Theory of Foreign Trade.

#### **1.1.2.1 Absolute Advantage**

Adam Smith (1776), mentions the productive capacity of each country, thus starting with his theory. This indicates that, thanks to specialization in production, certain productions will be more efficient than others, there will be certain products that can be obtained with fewer resources and will be of higher quality.

In addition, this theory indicates that different countries produce the same goods, but they can compete in production, some countries have more experience, so they can produce certain things at a lower price and with better quality. This theory explains that thanks to trade, countries can focus only on productions in which they are more efficient, since those products that do not produce efficiently can be imported from other countries. (Daniels et al., 2013).

Shortcomings of this theory (Rozas, 2016):

- It is based on the 2x2 model since there are two countries and two goods.
- Assumes that there is free mobility in production within each country.
- Supposes that the production is fixed.
- Does not take into account the logistics cost.
- Does not consider that natural resources are limited.

### **1.1.2.2 Comparative Advantage**

In this theory, the validity of the so-called absolute advantage is tested against the version of comparative advantage, and it is also deepened. David Ricardo indicates that there are more efficient countries, producing even more than their own resources, these countries will have to consider their opportunity cost in producing their goods in order to do so more efficiently (Rozas, 2016).

Comparative advantage indicates that the same country can be efficient in the production of different goods. In other words, a country wins if it allocates its resources

to those products whose production generates greater profitability at a lower cost. (Daniels et al., 2013).

A valid example is that of Costa Rica and the United States, which have an absolute advantage in coffee and wheat, respectively, given their climatic conditions. But the US has a comparative advantage over wheat against Costa Rica because they can produce more while lowering costs. Here it focuses a lot on the cost of production, since it is always tried to be lower and if for some reason they make it cheaper elsewhere, its level of productivity should prevail (Daniels et al., 2013).

### **1.1.2.3 Pure and Monetary Theory of International Trade**

This theory indicates that foreign trade is made up of two major fields of study. The first is pure theory and the second is monetary. The first is applied to national and international exchange, where the positive approach has to explain and, above all, predict certain events to answer questions such as what is the import or export of a given product subject to? What is the total value of exchange of each transaction? All these questions are subject to the context where they are applied, since foreign trade is different in each country (Torres, 1972).

On the other hand, we have the welfare analysis, which looks for the effects that will be seen on demand in a real exchange in a certain country, which makes it necessary to ask: are there any advantages of international trade for this country? rate of economic development in international trade increases or decreases? For these questions, it is necessary to have a good theoretical approach and a good investigation of the facts to know what measures should be applied (Torres, 1972).

### **1.1.3 Concepts of exports and imports**

The export in terms of economy is related to the sending of products or services outside their country of origin or their national territory to be used in a foreign country. Due to its importance, it is essential for the growth of any nation (Montes de Oca, 2015).

In general, the government institution in charge of export procedures is customs since it controls the entry and exit of products to and from abroad. The word export comes from the Latin *exportatio* which means to send different products, this activity is done to generate a positive impact on the economy of the issuing country (Montes de Oca, 2015).

On the other hand, the term import refers to the set of goods and services that a country buys from abroad to use them in its territory derived from a specific need. In turn, they will also have the objective of acquiring products that are not found in their countries or, if they do exist, are different in price or category, making them superior in this new market (Kiziryan, 2015).

All imports regardless of the country will generally always be subject to economic barriers, for this reason many countries have agreements that grant mutual advantages and gradual growth, thus providing greater capacity for growth to the participating countries, since their economy is improving and more even if the quality of imported products is superior to those that already exist in the market (Kiziryan, 2015).

#### **1.1.4 Importance of Foreign Trade**

To a large extent, foreign trade helps the economy of all countries since it provides jobs and the supply of products and services increases. A motivation to venture into foreign trade arises, on the one hand, on the use of excess production of certain products and on the other hand, on how to supply the lack of certain products that are not produced in the country. The signing of common bilateral and international agreements encourages the expansion of companies to have greater financial capacity since their supply and demand will increase (Páez, 2020).

Countries that need different goods or services for their growth turn to others to satisfy and supply these needs. All these needs together give rise to international trade, which is why foreign trade provides the opportunity for countries to reduce their limitations in their material inputs, and also in raw materials so that their population has at their disposal different options of a same product (Páez, 2020).

### **1.1.5 Benefit of imports for a country**

Taking Ecuador as a frame of reference, it can be indicated that national production results largely from the activities of primary sectors such as: livestock, agriculture, fishing, mining, but these fail to satisfy consumer demand, for which it is required import other types of products to meet their needs. Certain imported goods are direct competition for the same or similar ones that are produced within Ecuador, for this reason imports must be controlled through tariffs to prevent the national economy from being greatly affected (Luna, 2022).

The benefit of importing for Ecuador arises from what was said above, there should be no free barrier for excessive competition, this with the aim of granting aid for national production. Importing also brings the ease of being able to access a greater number of products, which is synonymous with well-being in the population. Thanks to imports in the industrial sector, companies have the possibility of increasing their technology and machinery, which is transformed into more productive capacity (Fanjul, 2019).

## **1.2 Analysis of the company and automotive sector in the city of Machala-Ecuador**

### **1.2.1 Analysis of the automotive sector in Ecuador**

### **1.2.1.1 History of the national automotive industry**

This story begins to unfold in the 50's, all Latin American trade began to be directed towards industrial development, all countries sought to grow their economy by giving added and strong value to their national production, which sought that the Latin American countries themselves produce their own goods to reduce import rates.

In the country in particular, the automotive industry grew from the 50s with the manufacture of seats, bodies and various parts and pieces. In the 60s, with the industrial promotion law, the production of spare parts was increased in order to meet the demand for various vehicle brands that already existed in the country (Calero, 2004).

In 1973, the assembly of national vehicles began with 144 units produced, with only one model called "Andino" which was manufactured by the AYMESA company until 1980. Limiting this to the 70's, the production of vehicles assembled in the country was 5,000 units. In this same decade, the Andean group commission approves the Automotive Industry program in decision No.120, from which it tries to encourage the automotive industry of Ecuador having good levels of efficiency, with good technology and thus help the country's economy (CINAE, 2013).

Advancing in time, in the country the "Popular Vehicle Plan" was implemented, which focused on the assembly of Fiat Uno and Suzuki Forsa brand vehicles, this had an increase of 54%, reaching the assembly of 7,846 vehicles in the year 1987 to 12,127 in the year 1988; Although they are high rates at that time, the country's inflation was 85%, which affected this increase to a certain extent (Orozco, 2009).

For the year 1993, an agreement was signed to complement the automotive sector that helped the assembly of vehicles with external tariffs applied to all imports, Ecuador,

Colombia and Venezuela signed it and gave way to growth in their trade and industry Latin American (Cabrera, 2009).

### **1.2.1.2 Assembly plants and national production**

The first plant that gave way to national production was Autos y Maquinarias del Ecuador S.A. (AYMESA) in 1973, followed by OMNIBUS BB TRANSPORTES S.A. in 1975, which remains the leading company in the production of units. In 1976, Manufactures Armadurías and Parts of Ecuador was established (Arias, 2017).

According to Hidrobo (2004) for the year 1994 said sector grew by 22.5%, thus considering it a good year, but for the crisis of 1998 and 1999 it decreased by 6.7% and -63.35%. In the year 2000, a recovery process began, establishing itself at 34%, growing equally with 43% in 2001 and 8% in 2002, showing stability and solidity at that time.

The time of dollarization was positive since it brought with it a reduction in interest rates, which helped reactivate the automotive sector, even with a strong demand in 1999 as well as a shortage in 2000. Among other points dollarization contributed to granting great financial security, but was affected by the idea that consumers did not want to risk buying a vehicle with this currency, for this problem in 2002 credit rates did not exceed 18% and comfortable terms 36 months, resulting in the assembly and production of 21,860 units (Hidrobo, 2004).

In the specific topic of national vehicle production, it was consolidated with 3,092 units, which were motivated by the restriction of vehicle imports to the country. Until the year of 1987, the production was located close to 5,000 sales, for the following year, having a positive outlook in the country, 12,127 units were produced and thus grew for the following year by 15,249, which indicated a margin of 54%. and 26% respectively (Arias, 2017).

### **1.2.1.3 Best-selling vehicle brands in the country**

According to the AEADE (2021) the automotive companies that sold the most in the country were Kia, Chevrolet and Hyundai, these indicate that in November 2021 the Chevrolet brand sold around 37,614 units, then Kia with 7,047 and Hyundai with 5,344, covering a large part of the national market. In the same count, but in the year of 2020 the Chevrolet brand continues to lead in sales with 42% followed by Kia and Hyundai.

The vehicle with the highest registration rate in the country is the Chevrolet brand in all its types of vehicles. According to this, 44% are light vehicles, 32.7% Jeep type, 36.8% vans and 30% trucks, resulting in this brand as the leader and with the highest national preference (Asociación de Empresas Automotrices del Ecuador AEADE, 2018).

### **1.2.1.4 Import of vehicles to the country**

The requirements that the country requests from companies that wish to import vehicles into the country are as follows (Elyex, 2022)

- The vehicle will necessarily have to be new and its year of importation corresponds to its model year.
- Transportation insurance
- Nationalization process with customs
- Purchase invoice
- Packing List
- Single shipping document
- Customs policy
- Each vehicle must have a VIN number
- Individual engine number
- Imported vehicle color



### **1.2.1.5 Import quotas**

According to data provided by the foreign trade committee in its resolution 66, it establishes import quotas focused on 40 companies that are dedicated to the sale of vehicles in the country. Depending on the subheading, there will be an annual amount in dollars and the number of units allowed; which cannot be exceeded. In this same resolution, in article 3, it indicates that the import quotas are already established and that in the case of not exceeding them, it cannot be transferred to a third party (Comité de Comercio Exterior, 2021).

Similarly, in resolution 51 of this same entity in its articles 1 and 7 it talks about the import requirements, but here the quotas are not detailed, however, it mentions that there is no limit regarding the imports of vehicles to the country, just keep in mind that they must be new vehicles, comply with the taxes they need for said import. Article 3 talks about the free importation of light and heavy vehicles into the national territory, but the quotas mentioned in the previous point will be taken into account, all companies will be subject to the quotas imposed depending on the type of vehicles that are intended to be imported (Comité de Comercio Exterior, 2021).

The most relevant companies that have limitations on import quotas are detailed below:

**Table 1***Annual quantitative import restriction for vehicles*

RUC	Consignatario	Partida Arancelaria	Cuota Anual en Dólares	Cuota Anual en Unidades
1791739205001	AEKIA S:A	8703229090	13,725,741.40	2,412
		8703229090	16,213,516.90	1,674
		8703241090	192,577.70	9
		8703249090	883, 137.50	55
		8703319090	8,302.00	1
		8703329090	2,130,240.00	210
		8703339090	86,800.00	4
		8703339090	41,048.00	2
1791739205001	ALMACENES JUAN ELURICIA. LTDA	8704211090	69,048.00	7
		8703210090	266,433.30	71
1790360741001	ALVAREZ BARBA S.A.	8703241090	31,780.00	1
		8703231090	68,625.12	2
		8703239090	640,899.67	24
		8703241090	82,971.00	2
		8703249090	61,935.30	1
		8703900091	9,857,208.36	134
		8703210090	506,834.02	107
1890010705001	AMBACAR CIA. LTDA.	8703221090	524,835.85	85
		8703229090	294,249.76	50
		8703231090	241,011.69	28
		8703239090	1,060,627.34	106
		8703329090	59,009.72	5
		8703339090	84,240.80	7
		8703900091	1,305,594.33	27
		8704211090	1,620,369.73	171
		8704311090	1,137,223.36	167
		8703239090	342,612.90	35
1790294757001	AUTOMOTORES DE FRANCIA COMPAÑIA ANONIMA	8703239090	701,512.70	51
		8703329090	104,647.90	7

Source: (Comite de Comercio Exterior, 2021)

**1.2.1.6 Vehicles imported per year in Ecuador**

According to the AEADE (2020) in the last 15 years, the number of vehicles brought to Ecuador reached an import cap of 139,893 units, but in 2017 there was a higher peak with 56% more than in 2016, but in 2015 there was a 32% debacle in imports compared to 2014. Specifically, in 2019 it is where more imports were registered with a number of 144,624 imported vehicles, selling an average of 11,032 in a period of one month.

In 2014, in the Ecuadorian market, Chinese vehicles occupied a percentage of 5.2% of total imports, something that in contrast to 2019, its participation improved to 20% of global national sales, which also occurs in countries such as Mexico, Colombia, European Union where the market share remained at 14.7%, 8.95 and 6.2% respectively (Asociación de Empresas Automotrices del Ecuador AEADE, 2018).

## **1.2.2 Automotive analysis city of Machala**

Specifically in the city of Machala, as in the entire country, the number of vehicles sold by dealerships has been increasing, especially trucks and cars, focused mostly for family and business; In a certain way, the trend of the brands sold is maintained, as will be shown below.

In the city of Machala, Chevrolet covers 48% of the market, followed by Kia with 15%, Hyundai with 7%, Toyota; Great Wall and Mazda with 5%, followed by Ford, Renault and Nissan with 4%, indicating that Chevrolet remains the leader in domestic sales (Cárdenas, 2017).

According to Cárdenas (2017) speaking on the issue of dealerships in the city of Machala, Emaulme is the dealership that covers the most clients within the market of the city of Machala with a percentage of 25.59%, with brands sold such as Chevrolet, such as seen before. In second place is Oro Auto with 23.76%, which in turn sells brands such as Kia and Hyundai. In third place, we find Importadora Tomebamba with a percentage of 13.32%, followed by Kia Motors with 11.49% and Renault with 7.57% of the total market.

## **1.3 Analysis of the company Innovauto S.A**

### **1.3.1 Historical review of the company**

Innovauto S.A. was established in the city of Machala, capital of the province of El Oro, Republic of Ecuador, on December 17, 2007 before the Abg. Zambrano Larrea sixth notary of the Machala canton. The main partners are: Eng. Freddy Cuesta Tobar and Dr. Víctor Chica Toral. The company was incorporated with a capital of \$800. The deed is registered on January 3, 2008 in the sixth notary of Abg., Luis Zambrano, and then

registered in the Mercantile Registry of the Machala canton on January 7, 2008; so the company begins to have legal life once it is registered in the Mercantile Registry; in which, likewise, the documents of the Internal Rents Service state the start of the company's activities in the city of Machala on January 7, 2008.

The company Innovauto S.A. was registered with the Superintendence of Companies on December 28, 2007.

The main activities of the company, according to the object that rests in the deeds are:

1. Import, export and market new and used vehicles of all models, brands and cylinder capacities; as well as its spare parts such as: starter motors, alternators, gaskets, wheels, gearbox, air conditioners, rings, tires, batteries.
2. Import and market all kinds of agricultural, machinery truck equipment, outboard motors, stationary motors and for all types of industry, their spare parts and accessories.
3. Import of heavy machinery.
4. Import and marketing of all types of brands and cylinder capacity of engines in general and their spare parts and accessories.

On October 19, 2010, the company carried out an expansion of the corporate purpose and the consequent reform of the bylaws of the company called Innovauto S.A is recorded in the deeds; for the commercialization of electric and hybrid vehicles, giving greater support to customers by granting a more varied portfolio of products.

On the other hand, as the company has evolved, they have allied themselves with suppliers that offer light, heavy and extra-heavy vehicles. In 2013, the legal representative of the company Innovauto S.A., Ing. Freddy Cuesta, made trips to China to look for new

brands and thus be able to introduce them in the Ecuadorian market; Subsequently, an import was made, through intermediaries, of new brands to the Ecuadorian market; With these new brands, it was also intended to position itself in the market of the province of Oro, offering payment facilities and obtaining more customer capacity, with a view to the potential growth of the company.

#### **1.4 Organizacional Environment**

The organizational environment is very important for the company Innovauto S.A. since, to acquire positive results in the sale of merchandise, workers must be motivated and satisfied in their work area.

Innovauto S.A, whose main partner and legal representative is Ing. Freddy Cuesta Tobar, has more than 30 years of experience and track record in the automotive sector, which is why it has won several clients who trust its work, being the best support for their business, therefore, knows the behavior of the market where it operates and the profile of its client. This has made the company INNOVAUTO S.A. It has full support and trust from its suppliers or what are called business partners.

##### **1.4.1 Products and services**

Among the products and services that have been granted, as the object of the company and SRI says, is the commercialization of vehicles.

Innovauto S.A. It began with the commercialization of multi-brand. The company has sold brands such as: Nissan, Renault, Mitsubishi, Hyundai, Kia, etc. As of April 2008, Innovauto was mainly dedicated to the commercialization of heavy lines, which are light, medium and extra-heavy trucks, the sale of multi-brand spare parts, the sale of lubricants, oils, additives of the brands that are marketed in Ecuador.

The products offered by the company Innovauto S.A. It is complemented with an automotive mechanic service. The company offers corrective mechanics services, which is when a part of the vehicle must be repaired, and also preventive mechanics, which is when oil changes or vehicle maintenance are required.

#### **1.4.2 Organizational culture**

The organizational culture of the company Innovauto S.A, is one of the fundamental pillars to be a competitive company and enter new markets where the commitment, collaboration and dedication of all personnel are required to achieve the objectives. For this, the following is highlighted:

- Teamwork. - Forming groups or work teams, the collaborators can interrelate, exchanging experiences and knowledge for the normal development in the different entrusted functions and thus the work becomes easier for them.
- Responsibility. - The workers, at the end of their work obligations, will abide by their personal responsibilities, until the next day they return. It is important for staff to know that they are subject to behavior policies inside and outside the company.

Innovauto S.A. look for the needs of the staff to satisfy them as quickly as possible; In this way, it has been possible to meet demands for illnesses that require medical attention, unforeseen events in the personal part that require the worker to be absent, whether due to a health problem or a serious accident of a close family member, all the benefits of law for them; all this so that they feel motivated in their workplace and thus customers are satisfied with the service provided.

#### **1.4.3 Purposes: Mission, vision, values.**

## **Purposes:**

**Mission:** Deliver an innovative service with excellent quality in the commercialization of vehicles and their parts, satisfying the needs of customers to the maximum in order to generate the best shopping experience, which will allow us to have profitability in our business and therefore a promising future. At the same time, maintain cordiality and good commercial relations with its suppliers, since they are a fundamental part of its activity and company.

**Values:** The values that the company adopts will be a fundamental part for the fulfillment of its mission and will be based on the meaning of its logo.

## **Image 1:**

*Logo 1:*



- **Left Curve. - (Blue Color)** Represents the experience that the staff has in the different jobs to manage the company's business in the best way and meet its desired objectives; the same one that is based on two fundamental pillars: seriousness and transparency in its actions, which will result in the trust and support of its clients.
- **Right Curve. - (Metallic Gray Color)** represents customer service, providing timely and guaranteed service, achieving excellence and the highest quality.
- **The center icon. - (Metallic Gray Color)** represents the innovation that will be used in the service to differentiate itself from the competition, basing on continuous improvement of processes and the use of permanent staff training.

It is worth mentioning that the innovation of the company Innovauto S.A. will not have limits or borders that stop the enthusiasm to seek excellence.

In addition, among all the values that make up the culture of the Organization, there are shared values: being honest, supportive, disciplined, and professional.

**Vision:** To be an innovative company with high quality services, acting with professionalism and seeking to occupy the first places in vehicle sales in the province of El Oro in the medium term.

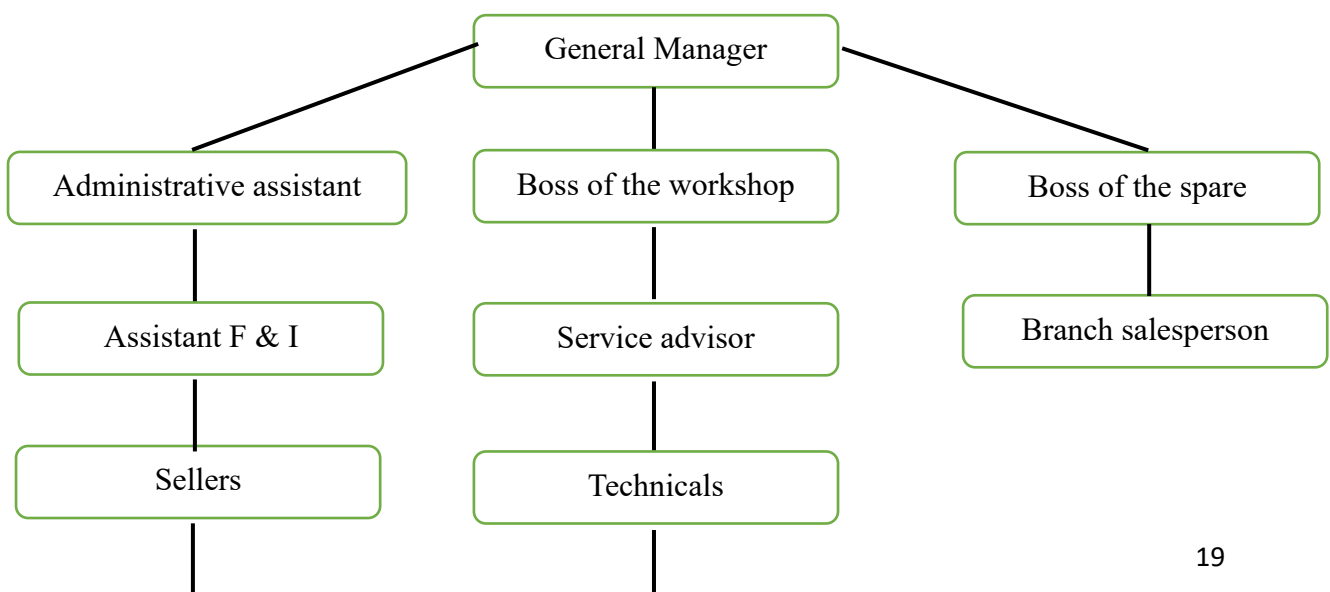
#### 1.4.4 Human Resources

The profile of the employees is of medium-high economic partner, professional and experienced in their area, coming from other companies related to our work. The level of education of the staff is: Higher: University students and professionals with a degree in Business Engineering, accounting degree, CPA. And titles at fourth level: Master of Business Administration.

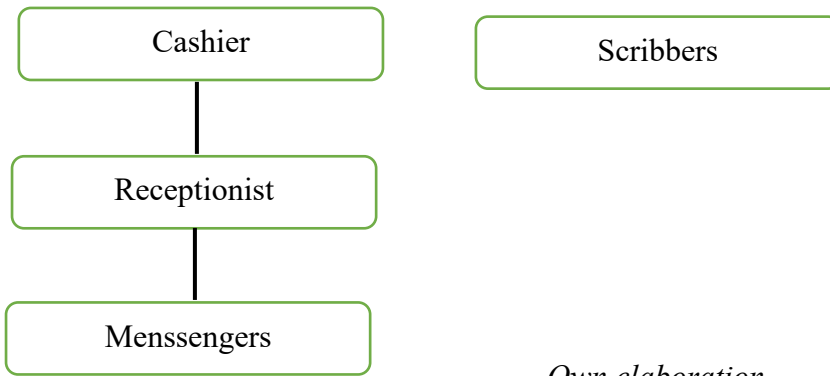
#### 1.4.5 Organizational structure

**Graphic 1:**

*Organizational structur*







*Own elaboration.*

## 1.5 Organizational Relations

Innovauto S.A. maintains in its ecosystem the link with its workers who support their work and at the same time provides them with stability in their functions. For the company, the contribution of each one of them has been very valuable, according to Orgambidez and Almeida (2015) every company must guarantee the provision of all the necessary resources so that the performance in terms of the organizational structure is successful and in turn guarantees the future customer acquisition and retention. At this point, both organizational practices and the organizational climate will affect the quality of service.

Precisely these two points are important factors for Innovauto S.A. in how all its collaborators provide a service and in turn how they feel doing their work; communication is also an important factor for feedback about their work, precisely in the company it is what they try to implement, thus improving efficiency with customers. For Innovauto S.A. that employees feel good in their work area will be synonymous with excellent work.

### 1.5.1 Market positioning

Innovauto customer type:

- Miner

- Banana Farmer, coffee grower
- Shrimper
- Rancher
- General Trade
- Others...

Innovauto market:

- Machala
- Pasaje
- El Guabo
- Piñas
- Portovelo
- Zaruma
- Arenillas
- Huaquillas

Other Markets:

- Alamor
- El Triunfo
- Ponce Enríquez
- Naranjal

Innovauto S.A. It has a stock of spare parts and a specialized technician to be able to comply with the requirements and demands of the guarantee. Cost of spare parts and attractive maintenance to motivate the customer to purchase your product, providing a guarantee on your work and giving customers peace of mind.

### 1.5.2 Matrix SWOT

**Graphic 2:**

*Matrix SWOT*

<p style="text-align: center;"><b><u>STRENGTHS</u></b></p> <p>Stock of vehicles.</p> <p>Own place to market.</p> <p>Auto mechanic workshop.</p> <p>Stock of spare parts.</p> <p>Experience in the automotive sector.</p> <p>Strategic Alliances.</p> <p>Innovation in customer service.</p> <p>Teamwork.</p> <p>Business leadership.</p>	<p style="text-align: center;"><b><u>OPORTUNITIES</u></b></p> <p>Qualified human resource.</p> <p>Qualified personnel with knowledge to enter the market.</p> <p>Good communication with suppliers.</p> <p>Qualified staff with tactics to operate in the market.</p> <p>Possible alliances for new branches.</p> <p>High potential for expansion and growth.</p> <p>Unsatisfied demand by the competition.</p>
<p style="text-align: center;"><b><u>WEAKNESSES</u></b></p> <p>It does not have a strategic partner with capital.</p> <p>The premises do not have enough space to store the tools, creating supply problems.</p> <p>The staff covers several functions without being able to fully comply with what was planned.</p>	<p style="text-align: center;"><b><u>THREATS</u></b></p> <p>Change of government policies.</p> <p>Change of vehicle import and marketing policies.</p> <p>COVID 19 pandemic.</p> <p>High saturation in the automotive sector in the province of El Oro.</p> <p>Clients prefer companies with more experience.</p>

The financial organization is not in order.	Better sales structure by the competition.
Poor structure in important areas.	High rates of import tariffs.
Little experience in direct imports.	

*Own elaboration.*

### **1.5.3 5 Porter's strengths based on Innovauto's positioning in the market**

Porter's 5 forces is a model that focuses on the diagnosis of competition in a specific sector, called the microenvironment. In the case of Innovauto, it was possible to determine:

#### **1.5.3.1 Potential entry of new competitors**

In accordance with market growth and the import policies that are in force in the country, growth is established in the local market for the purchase and sale of vehicles, especially with new makes and models, that is, the environment favors the entry of new competitors which affects the previous environment.

#### **1.5.3.2 Rivalry between competing companies**

Being a booming market, rivalry is high, since not only in Machala and El Oro but throughout the country, all companies seek to attract customers for their businesses. Each one offers discounts, gifts, bonuses, free registration, gasoline in all possible sales.

#### **1.5.3.3 Development of substitute products**

The importation of vehicles and the purchase of these by dealers has been affected in a certain way by digital platforms such as Uber, Cabify, among others, which have made people not interested in acquiring any vehicle or in turn the versatility of

motorcycles, it has decreased the acquisition of motor vehicles because they are fuel savers and have a lower price.

#### **1.5.3.4 Bargaining power of suppliers**

In this section, being importers of vehicles in their entirety, suppliers comply with a large percentage of business decisions, that is, they are also involved in the negotiation part. Taking into account also that there is only one supplier, this one will try to impose its conditions within the market in a certain way.

#### **1.5.3.5 Bargaining power of buyers**

Being a vast market, and always having a high supply and demand, the local consumer allows companies to have a high power of negotiation, which means that market strategies are focused on attracting new customers, who due to the aforementioned, have the ability to lower prices affecting the final purchase decision.

### **1.5.4 Strategic relationships and alliances**

Innovauto S.A. does not have a strategic alliance. However, the company could make a strategic alliance with a supplier that really wants to introduce its products in the province of El Oro. In this way, Innovauto S.A., could adhere to the supplier so that it can exclusively provide the products.

On the other hand, another strategic alliance that Innovauto S.A. must take into account they are with the banks. The bank could provide flexible credit to the company's clients; where the down payments to purchase the vehicle are lower and the term is longer, the bank could also provide good interest rates exclusively for Innovauto S.A. customers. With this, it could be a motivation for customers to acquire the vehicle in the company.

## **1.6 Organizational Challenges**

The company Innovauto S.A. It has as an organizational challenge to improve in its lack of planning for the activities that are planned, the development of import policies that benefit the future in the sales of the company, in the same way also to improve in the budget allocation for a potential growth of the company and the challenge of attracting new customers for the business.

### **1.6.1 Competitive Environment**

Due to the expansion and growth of various sectors within the country, sales of light and heavy vehicles have been increasing. People are looking for a way to solve their mobility needs since they make use of these for their jobs.

It can be established that the competitive environment in the province of El Oro, with the majority of consumers preferring the Chevrolet brand, which is why the company E. MAULME is the one with the highest sales index for marketing and distributing this brand, in In second place, we find OROAUTO, which in turn sells and distributes the Kia and Hyundai brands, which positions them as strong sales brands nationwide, with no exception being the city of Machala, which follows the same buying and selling trend of these brands.

### **1.6.2 Competitive Position**

The competitive position of Innovauto S.A. it is to have a line of trucks with good acceptance by consumers and good price alternatives, since that would give the company an advantage over the competition.

### **1.6.3 Competitive Advantages over competitors**

Talking about competitive advantage is referring to the ability to produce goods at a lower cost but generating benefits higher than those offered by the competition, where product quality, innovation, technology and above all service always prevail. Competitive advantage refers to certain elements that favorably distinguish and differentiate a certain company from its competition, seen from the perspective of the client or consumer. (Ceceña Hernández, 2013).

Innovauto S.A, has the advantage of having the necessary tools and implements to be able to participate and fight in the market against competitors. The company has automotive mechanics, and qualified technicians in the change of the units that require it, in addition to the experience that is an important factor for the company to remain well positioned in the market of the province of El Oro.

Compared to its direct competitors, it is the treatment of customers, it is a qualitative and important factor that guarantees proper attention to them, for this the standards that the company manages will be of vital importance above all to maintain them and that customers assist for a purchase or maintenance knowing that they will be listened to, and their requirements will be resolved.

#### **1.6.4 Strategic challenges**

The challenge of the company Innovauto S.A. is, in the long term, to manufacture its own brand of trucks or set up a truck assembly plant in the province of El Oro and distribute it in Latin America. This goal of the company is not impossible; however, it will be focused on providing the best benefit to its customers. They are great strategic challenges, but they will always be achievable with the work, effort and alliances that can be made.

## **Conclusion**

Throughout this chapter, the fundamental concepts for understanding foreign trade, its importance and benefits for local economies have been known. A first-hand analysis of the state of the automobile market in the province of Oro and the positioning of the company Innovauto SA in the local market has also been carried out. It is true that competition will always be an indicator of improvement and will provide the vision for the company to take another path, and as we have seen, there is strong competition right now. However, the advantage of the company lies in its years of experience and the work that has allowed it to remain strong in the market. The company's focus on maintaining good customer service and thereby achieving peace of mind and confidence to customers remains one of its fundamental objectives.

The challenge within the company Innovauto S.A. Based on the analysis that was carried out, it also has to do with its intention to import light vehicles to have a broader product portfolio and thus position itself even more within the city. This is also intertwined with the idea of attracting new customers, based on providing them with a quality experience; after having analyzed their environment, the future improvements that the company has, must also be intertwined with a correct customer satisfaction policy that will differentiate them from their competition.



## **Chapter 2**

### **Study and Comparative Analysis of Products and Suppliers**

#### **2.1 Introduction:**

Once the company has been investigated in its entirety; next, we will proceed to analyze the Chinese market, the catalog of products they offer, as well as the prices to define which is the best supplier for the company, in order to select the most suitable one that favors the growth of the company, taking into account also take into account the import policies in force in the country. This market was chosen for its variety of designs and its excellent prices, which can compete with existing brands. An important point is the growing demand for Chinese vehicles within the country, which makes the Ecuadorian market more attractive and, above all, provides the relevant facilities to execute an import plan, largely due to the growing demand for Chinese vehicles within Ecuador has to do with prices, the variety of alternatives for the same option, its financing and payment method.

#### **2.2 Chinese cars**

In recent years, the People's Republic of China has rapidly developed its automotive industry. Currently it has the capacity and personnel to manufacture any type of vehicle, its production volume grew from 222 thousand to 18.3 million units between 1981 and 2010 (Fourin, 2005; OICA, 2010). This growth in the Chinese industry is unprecedented, not even compared to the North American market in the 1950s or in turn to Japan or Europe in 1960 (Freyssenet, 2009).

Initially, automobile production in China was only for domestic consumption, but the export of light and heavy vehicles has been increasing since the 1990s (Jenkins & Dussel, 2010). This has occurred as a result of the government plans that have been

implemented in industrial policy since 1996 and that have caused the increase in production and exports in the Chinese automotive sector. The Chinese automotive industry went from stagnation to fairly rapid growth due to demand in India and Eastern Europe, the changes arise as a result of the large number of Chinese products that enter these countries and are attractive due to low production costs, versatility of designs and its growing market that is estimated to exceed 15% of the world and global automobile market in the following years (Gao, 2004). The growth figures for the production and sale of Chinese automobiles include vehicles, trucks, vans, buses, which in turn are estimated to grow with the flow of trade and highways in the countries where they are imported.

The sales potential of Chinese cars is reflected in the countries that buy them the most, for example, their presence is found in countries in Southeast Asia, Russia, the Middle East, Africa, some countries in Eastern Europe and Latin America such as Colombia, Peru, Ecuador, since manufacturing is around 21.4 million vehicles per year. As for its prestige, China has been climbing in the sale of its products, there are several brands such as Jac, Cherry, Great Wall, which have positioned themselves within the Latin American market, this arises as a result of accessible prices, innovative designs and the security they provide to their users makes them trustworthy brands for their potential clients. On the subject of prices compared to famous brands, the Chery brand can be taken into account, which was the best-selling brand in countries such as Brazil, Argentina and Chile, surpassing brands such as Kia, Hyundai and Suzuki. The prices of famous brands to the public range from \$29,999, however Chinese cars within the same category are found for \$25,999 (Mena, 2020).

### **2.3 Ecuadorian demand in the automotive sector**

For the Association of Automotive Companies of Ecuador (AEADE) (2018), in the country and the region, the demand for automobiles was very significant, every year the commercialization of all types of vehicles grows, especially cars and trucks, which the vast majority are used for family transportation or in turn for the sale of some good or offer of services. For this reason, the AEADE publishes year after year the sales yearbook which highlights the brands that Ecuadorians prefer when purchasing a vehicle; the most relevant data indicates that in 2018, the Chevrolet brand is the one with the highest percentage of sales with 33%, but the Chinese brands this time reached 25.3% of the national market, which indicates that it is gaining ground in the country.

In the course of 2020, vehicle imports in the country grew by a margin of 8.91% compared to 2019, this represents 19.95% of GDP, which is why it has been ranked 35th in the ranking of imports relative to its GDP. According to data from the AEADE, Ecuador between the months of January and March 2019 had an amount of \$17,958 million dollars referring to the amount of vehicles sold, with an annual GDP inflation of 0.33% while in January and March 2020 an amount of \$17.5523 million is shown with a decrease in GDP of -0.76%, this clearly indicates constant instability due to the pandemic situation (Angulo & Sosa, 2011).

On the other hand, Chinese brands continue to position themselves in the domestic market, competing directly with South Korean brands, since most of them offer payment facilities, good prices, promotions, etc. In fact, in 2020, compared to 2018, the national demand for Chinese vehicles represented 25.3% of the market, giving a total of 2,857 units sold, according to these figures these brands were consolidated despite the situation of the pandemic within the country (Auto Magazine, 2020).

To reinforce the idea of the growth in demand for Chinese cars in Ecuador, last year 2020 China, with its sales, is managing to climb within the automobile market behind

the big brands. The AEADE indicated that the vehicles that arrived from China were from January to July between 26% of the participation in the entire market, due to their competition in prices and the large catalog of products that they presented, since they were not only gasoline vehicles but also electric (El Universo, 2019).

According to the AEADE, the Ecuadorian demand registered until September 2019, there are 40 Chinese vehicle brands that are marketed throughout the country: Domy, Bai, Landwind, Great Wall, Dongfeng, Baiben, Lifan, Hanteng, Huanghai, Enranger, BYD, QMC, Jac, Faw, CAMC, Shineray, Sinotruck, Jetour, Jinbei, Chanan, Changhe, Souqeast, JMC, Foton, Chery, Ventura, Yue Jin, Joylong, Geely, Dayang, Yutong, Kawei, Zotye, King Long, Golden Dragon, Dayun (El Vocero, 2019).

Delving a little deeper into the demand for Chinese brands in the country, in an interview conducted by Diario el Comercio (2017), the company Ambacar stated that by marketing Great Wall brand vehicles, it marked a gradual growth in sales since 2010. In addition, it indicates that said concessionaire distributes several brands, since the demand in the country is high. The national manager of the Andean importer highlights the growing demand for Chinese vehicles, which is why several marketers decided to sell Chinese cars, as well as assemblers such as the Aymesa company that is dedicated to the assembly of models for the Jac Motors brand.

### **2.3.1 Import of Chinese vehicles by the company Innovauto S.A.**

The import of Chinese vehicles by the company Innovauto S.A. is born from the idea of having more control over the products and the process of acquiring them, since a direct import will be carried out, avoiding extra expenses by intermediaries, so costs would be saved and the cars will be selected based on the needs of the local market. In the same way, logistics and insurance payments will be controlled by the company,

focused on sales with its customers. On the other hand, being in direct contact with the supplier can make more timely decisions or perhaps modify certain agreements within the negotiations. An important point is also when establishing contact with the Chinese market, it is also possible to create large distribution channels for possible new products, depending on the market demand. Remembering as it was said in the previous point that Chinese vehicles are gaining space within the national market with a high percentage over traditional brands since they have cheap labor but of equal quality.

## **2.4 Chinese cars to import**

The main focus of study of this research is the importation of Chinese vehicles, the great boom they have in the national market was already mentioned and the success of their commercialization will have to do with several factors, all focused on seeking benefit from customers. The growth of the national market and the preference of potential buyers will be taken into account, granting them payment facilities, a variety of options, price competitiveness in relation to other brands. In addition to this, the manager of the company, Ing. Freddy Cuesta, during the 17-year history of Innovauto S.A. has identified the best-selling models, so the products were selected based on the needs of the local market, which is why the following products are presented:

**Table 2:**  
*Product description*

<b>Truck model:</b>
HFC 1035 Double Cabin
HFC 1035

HFC 1040

Note: Information obtained from the IBAMOTORS company website;

Source: Ibamotoros (2022)

Elaboration: Own

In the end there were 3 models of Chinese vehicles chosen for the possible importation of the company Innovauto, later on we will see more specific criteria to be used for this operation such as characteristics, price, specifications, capacity and accessories, taking into account that all the previously mentioned belong to the category of light trucks, and their price range will be within the same range, thus giving 3 options where their characteristics vary, since in turn it will depend on the needs of each buyer to select the option that best suits them. accommodate your requirement. The choice of supplier is a point of fundamental importance in an import plan, several options and the different benefits that each one offers will be taken into account.

#### **2.4.1 Product description**

Next, the chosen products will be detailed based on their particular specifications, as well as their capacity and accessories, each one has advantages for potential buyers, taking into account the demands of the market, all these products belong to the category of light trucks. Within the description will be, characteristics, price, legal import requirements.

##### **2.4.1.1 Features**

#### **Table 3:**

*Vehicle characteristics*

Product	Specs	Capacity and accessories
<b>HFC 1035 Double Cabin</b>	<ul style="list-style-type: none"> <li>- 4 cylinders in line turbo intercooler</li> <li>- Displacement 2,771 cc.</li> <li>- Maximum power: 106 HP / 3600 RPM</li> <li>- Lubrication by type Full Flow, Oil Pump, Oil Filter, Cooler</li> <li>- Cooling by Radiator, Fan and Water Pump</li> <li>- Injection: EURO III ELECTRONIC Pump, Mechanical, Fuel Filter</li> <li>- Tank: 17.29 gls.</li> <li>- Diesel</li> </ul>	<ul style="list-style-type: none"> <li>- Capacity for 5 passengers</li> <li>- Radio CD</li> <li>- Air-Conditioning</li> <li>- Bucket</li> </ul>
<b>HFC 1035</b>	<ul style="list-style-type: none"> <li>- 4 Cylinders in Line Turbo Intercooler</li> <li>- Max power: 109 HP / 3600 RPM</li> </ul>	<ul style="list-style-type: none"> <li>- Capacity for 2 passengers</li> <li>- Air-Conditioning</li> </ul>

	<ul style="list-style-type: none"> <li>- Lubrication: Full Flow Type, Oil Pump, Oil Filter</li> <li>- Cooling: Radiator, Fan and Water Pump</li> <li>- Injection: Rotary Injection Pump, Mechanical, Fuel Filter, Mechanical Governor</li> <li>- Tank:17.19 gls.</li> <li>- Diesel</li> </ul>	
<b>HFC 1040</b>	<ul style="list-style-type: none"> <li>- 4 Cylinders in Line Turbo Intercooler</li> <li>- Displacement 2,771 cc.</li> <li>- Max power: 92HP / 3600 RPM</li> <li>- Lubrication: Full Flow Type, Oil Pump, Oil Filter</li> <li>- Cooling: Radiator, Fan and Water Pump</li> </ul>	<ul style="list-style-type: none"> <li>- Capacity for 2 passengers</li> <li>- Air-Aconditioning</li> <li>- Bucket</li> </ul>



	<ul style="list-style-type: none"> <li>- Injection: Rotary Injection Pump, Mechanical, Fuel Filter, Mechanical Governor</li> <li>- Tank: 18,5 gls.</li> </ul>	
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Note: Information obtained from the IBAMOTORS company website;

Source: Ibamotoros (2022)

Elaboration: Own

#### 2.4.1.2 Price

For this section, vehicles were selected in a price range from \$19,890 to \$25,990, thus allowing the choice between different alternatives, but of the same quality, varying in different additional characteristics such as air conditioning, type of cabin, etc. This selection is based on the reality of the market and the possibility of purchase by future customers. To limit this information, according to data from the AEADE (2018), in the city of Machala, in the category of trucks, sales were in a price range from \$15,999 to \$29,999, which is why the selected options are within this range.

**Table 4**

*Description of each product*

Product name	Price	Category
HFC 1035 Double Cabin	\$25.990	URBAN: light trucks
HFC 1035	\$19.890	URBAN: light trucks
HFC 1040	\$22.990	URBAN: light trucks

Note: Information obtained from the IBAMOTORS company website;

Source: Ibamotoros (2022)

Elaboration: Own

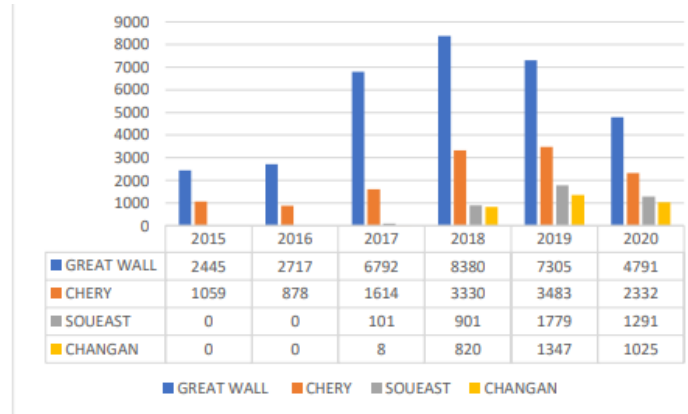
## **2.5 Comparative analysis of Chinese cars**

As a starting point, the Chinese automobile sector reached 9,345 and 9,381 million cars sold in 2018, this data corresponds to a growth of 5.2% and 6.7% compared to the previous year. The comparison between Chinese cars evokes a strong competition, since each company that is dedicated to manufacturing in each year pays more attention to details and in turn to the creation of new models, in fact, the motto is always to innovate and improve to adapt to the competition with brands that have more experience and positioning. The comparison also covers ecological and energy saving models among all its models, since one of its objectives is the conservation of the environment (Zhang, 2010).

As for Chinese cars, as mentioned above, they have managed to position themselves and above all maintain themselves over the years, the Great Wall, Soueast, Chery and Changan brands have at least one branch in the main cities of Ecuador and are among the most relevant in the national market since they have been successful sales since 2015 (Asociación de Empresas Automotrices del Ecuador AEADE, 2018).

### **Graphic 3:**

*Number of cars sold in Ecuador by Chinese brands from 2015 to 2018.*



Source: AEADE (2018)

Elaboration: Own

Based on the above table, it is evident that Great Wall is the brand that sold the most vehicles nationwide in all the detailed periods, followed by Chery, Soueast and Changan, which have fewer sales, but the same shape are constantly growing. Between the years 2019 and 2020 there is a lower trend of sales of automobiles sold per year, this as a result of economic conflicts that arose in the country added to the health emergency due to COVID-19. What most attracts attention to customers are the attractive prices compared to traditional brands that turn out to be smaller, such as trucks and vans. There is only one Chinese vehicle assembler in Ecuador called CIAUTO and it is part of the Great Wall group, this in turn has been able to maintain and offer competitive prices, since the costs generated by imports are lower because 40% of its pieces are produced in Ecuador (Aguilar & Coyago, 2021).

### **2.5.1 Choice of supplier of Chinese cars for the company INNOVAUTO SA**

Suppliers within a company play an important role in the business process, providing targeted benefits directly to customers. These within a business directly influence good performance, also a benefit for the supply chain and customer service. When referring to the operational plans focused on the issue of suppliers, it is important

to mention that these have many approaches, the research focuses on its importance and the correct choice, since it is necessary to have a good selection of suppliers and have a good relationship with them. For the correct choice of a provider, several factors must be considered so that the decision is on the right track (Estrada, 2004).

Another important aspect is the form of payment and financing, since they are high amounts of money, payment deadlines are important facilities. The quality of the products is also another important aspect, since the delivery routes and everything related to logistics are derived from this. Finally, the contact with suppliers, the relationship established with them, will give way to a working relationship that is beneficial for both parties (Estrada, 2004). The aspects to take into account to choose the supplier will be: trajectory, prestige, prices, models, forms of payment, location, experience in international sales and distance between supplier and client.

## 2.6 Comparative analysis of the suppliers

Two Chinese suppliers were selected that offer a catalog of vehicles available for import, due to the requirements of the company and the needs of the type of vehicles to be imported, these offered the benefits that Innovauto S.A required and are aligned with its way of working. Both grant direct benefits for imports and are the ones that offer the best prices specifically for the selected vehicles. These are:

**Table 5:**

*Chinese suppliers*

<b>Foreign Providers</b>	<b>City</b>
China Faw Grupo Co., Ltd.	Changchun
Qoros Auto Co.	Shanghái

Source: Gerente General SORCAR (2022)

Elaboration: Own

### **2.6.1 Provider history**

#### **China Faw Grupo Co., Ltd.**

Supplier dedicated to distributing and exporting high-end vehicles with good profitability and reliability, its distribution is in more than 70 countries, making it easy to acquire any brand, in addition, it has 1,600 employees and has offices in China, Brazil, Germany, Italy. , United States, United Kingdom, and its manufacturing and distribution center is in China (Soriano & Benavides, 2015).

#### **Qoros Auto Co.**

Distributor and supplier of several well-known Chinese brands throughout the country such as JAC, Jetour, Chery, Ventura, has more than 13 years of sales experience with a catalog of vehicles of various brands imported from Japan, North America, Western Europe. The main objective of this company is to expand in the market with excellent quality, good customer service and low prices. Its facilities are located in the city of Shanghai.

### **2.6.2 Company prestige**

#### **China Faw Grupo Co., Ltd.**

This company of Chinese origin began its operations on July 15, 1953, being an assembler of old and large cars from this country; with revenue of 35,400 yuan (\$5.56) and total assets of around 457.83 billion yuan (\$71.928 million). Faw is also responsible for the operation and development of premium brands, maintaining its strategic position compared to its competition, having a unique management system, mainly aimed at its customers (Faw Group, 2022).

## **Qoros Auto Co.**

Chinese company based in Shanghai, develops and maintains prestige in innovative vehicles in design, connected services and safety, which are within the top international quality standards. Qoros combines key component modules, as well as human capital and supplier networks for the manufacture of all its vehicle lines, being established in 2013 (Qoros Auto, 2022).

### **2.6.3 Prices**

According to the estimate of prices obtained from the Chinese market of each of the suppliers, the following can be pointed out (Qoros Auto, 2022; Faw Group, 2022):

**Table 6:**

*Supplier Price comparison*

<b>PROVIDER</b>	<b>MODEL</b>	<b>PRICES \$</b>
<b>China Faw Grupo Co., Ltd.</b>	HFC 1035 Doble Cabina	\$ 20.500
	HFC 1035	\$ 15.700
	HFC 1040	\$ 17.800
<b>Qoros Auto Co.</b>	HFC 1035 Doble Cabina	\$ 19.980
	HFC 1035	\$ 14.990
	HFC 1040	\$ 16.800

Source: Gerente General SORCAR (2022)

Elaboration: Own

### **2.6.4 Model**

The selection of models is based on the import requirements for the company that is part of this study, both model selections are offered by the suppliers (Qoros Auto, 2022; Faw Group, 2022):

**Table 7:**

*Vehicle models by supplier*

<b>PROVIDER</b>	<b>MODEL</b>
<b>China Faw Grupo Co., Ltd.</b>	HFC 1035 Doble Cabina
	HFC 1035
	HFC 1040
<b>Qoros Auto Co.</b>	HFC 1035 Doble Cabina
	HFC 1035
	HFC 1040

Source: Gerente General SORCAR (2022)

Elaboration: Own

As can be seen, both providers have at their disposal the models that they intend to import.

### **2.6.5 Payment methods**

Both providers have credit financing or direct payment depending on the amount of purchase made. In the case of China Faw Group, if the purchase amount is 150,000 US dollars, the credit term is 75 days for the payment of the merchandise, the Qoros company, having the same purchase value, grants a term of 90 days for the total payment. Now, in direct payment, the discount applied to the purchase value is 3% for both companies, regardless of the amount to be purchased (Qoros Auto, 2022; Faw Group, 2022).

### **2.6.6 Location**

As indicated before, both companies are of Chinese origin. Qoros is located in the city of Shanghai and Faw Group, is located in the city of Changchun, both companies

dedicated to being suppliers of various brands to different countries (Qoros Auto, 2022; Faw Group, 2022).

### **2.6.7 International sales experience**

Both providers have an international distribution service, Faw Group has distributors in more than 40 countries around the world. In Ecuador the main distributor is ECUABEIBEN CIA.LTDA based in the city of Cuenca, all models and brands are available to be imported. Qoros Auto has direct distribution to more than 60 countries, within the country the main distributor is IBAMOTORS with headquarters in the city of Guayaquil and Quito, also having the possibility of direct import of all its models. Bearing in mind that both companies have extensive experience, being cataloged as leaders in the sale of various makes and models of vehicles, Qoros Auto has a slight advantage in the export of light trucks in contrast to its competition, which specializes more in the sale of sedan-type vehicles. An important point that is not described within the above is that both also have an export guarantee, in both cases both Faw Group and Qoros have a guarantee of transfer to the location of origin and possible damage to the vehicles they distribute, which gives the customer one more advantage. This point is important because you should always have some support for the purchase made (Qoros Auto, 2022; Faw Group, 2022).

### **2.6.8 Transportation from each location**

Due to the geographical location of each supplier and considering that both are in China, the transport for both will depend on the port from which they leave, where costs will be considered in different locations, with Qoros being the brand with the closest port to Ecuador. Because vehicles are being imported to Ecuador, ships will necessarily be used to bring them from China; the waiting time is more or less 3 weeks and the cost depends on the total value of the merchandise. When a certain company takes charge of



the transport to its place of destination, the products, which in this case are vehicles, go to a warehouse at the port of China; the supplier leaves the products in the port and the importer is responsible for the transfer to its final destination. It is also important to mention that Qoros, being in the city of Shanghai, has a port for the transfer of vehicles to their destination. Faw Group, which is located in the city of Changchun, also has a port for the transfer of its merchandise (Godoy & Ortega, 2012).

### **2.6.9 Advantages and disadvantages of each option**

After having analyzed the companies China Faw Group and Qoros Auto Co, both options are viable to be chosen as suppliers. On the one hand, we have the advantage of Faw Group's experience over Qoros, which is decisive in terms of logistics and transportation, however, the advantage of Qoros, on the other hand, is its distribution network, since it is present in several countries around the world. The most important advantage has to do with the issue of prices, there is a difference in terms of prices of the selected vehicles, Qoros Auto has this advantage over its competitor.

Another important point to mention is the issue of financing, Qoros offers more days of term for the total payment of the import with an advantage of 15 days over Faw Group, since they are always high amounts of payment, this advantage is significant for the election from the provider. Regarding their sales experience, both companies have a good position in the market and solidity in their brands, there are other points to consider for the advantages and disadvantages since in this section they are in equal conditions. Finally, in terms of transportation from the location, Qoros Auto has more advantage over its competitor as it is less far from the destination of origin, which also gives it an advantage.

## **2.7 Provider choice**

**Table 8***Analysis comparative of the supplier*

<b>Factor de comparación</b>	<b>China Faw Grupo Co., Ltd.</b>	<b>Qoros Auto Co.</b>
<b>Prestigi</b>	69 years on the market	9 years on the market
Choice	✓	
<b>Prices</b>	\$ 18,000	\$ 17,256
Choice		✓
<b>Models</b>	Same models	Same models
Choice	✓	✓
<b>More/less ease of payment</b>	Lower financing	Higher financing
Choice		✓
<b>Location</b>	More distance from Ecuador	Less distance from Ecuador
Choice		✓
<b>International sales</b>	9 year	13 years
Choice		✓
<b>Transportation</b>	Changchun	Shanghái
Choice	\$\$\$	\$\$
<b>Warranty</b>	Does not have warranty	Has warranty
Choice		✓
<b>Total</b>	2 ✓	7✓

Elaboration: Own

Based on table 8 and the characteristics granted by each supplier, considering that they must be specialists in the field of trucks, also based on the product requirements, the supplier chosen for imports is Qoros Auto Co. based on its history, brand and positioning within the market. We believe in this election above all focused and oriented to the future in terms of sales projections of the company INNOVAUTO S.A. and that it can continue to expand much more within the market of the Province of Gold.

**Conclusion**

After having analyzed the suppliers and products, it is concluded that Chinese automobiles have generated a great impact within the national and world market, emphasizing their growth at a global level with sales that reach traditional brands. Continuing with the theme of the Ecuadorian market as it has also been changing in terms of vehicle sales, with statistics that indicate how Chinese brands are gaining greater acceptance within the national market, also highlighting the fact of the benefits of buying Chinese brands, its different options in terms of models, however the most influential factor that leaves as a conclusion compared to traditional brands, are its prices and the benefit that you have with the purchase, which are equal to or even better than the competition.

Within the company Innovauto S.A, two important aspects are also concluded, firstly, the choice of vehicles according to the needs of the market and its idea of future sales, followed by the choice of the most suitable supplier for this entire process. As seen in the analyzes carried out, the conclusion is oriented towards the supplier that provides the most benefits in terms of purchase, prices and guarantees, since they are high investment values, the risk must be minimal and everything must be aligned for the benefit of the company, as was done in the choice of supplier.

## **Chapter 3**

### **Introduction**

After having analyzed the company and its position within the local and national market, selecting the products and supplier for the import process, the route to import is proposed below, starting with the import requirements and policies within the country, as well as aspects politicians referring to imports from China to Ecuador. Within this chapter, several items related to the issue of imports will be taken into account so that the process is carried out in the best way.

### **3.1 Vehicle import quota to Ecuador**

Import quotas are protection measures that limit exports or imports of certain goods, in quantity or value, that a country carries out in a set period of time, which is usually one year. The quotas can be global, that is, it is allowed to import by total volume of merchandise without influencing its origin; or by country, delimited according to the country of origin. In the specific case of this investigation, within Ecuador the importation of vehicles is managed by quotas and which in turn is derived from the country of origin, granting a limit to market them and giving guarantees of fair competitiveness to all brands (Solís, 2019).

The way in which a company obtains a quota to import is granted by the Ministry of Production and is provided through a quota certificate, which in this case applies to the importation of vehicles, this certificate must meet some requirements such as that the owner of the company is domiciled in the Ecuadorian state, have the character of selling vehicles, do not present pending obligations when the procedure is carried out, demonstrate that the assigned quota will be used exclusively for the sale of vehicles and

finally demonstrate that the limit established for the importation of vehicles will not be exceeded (Ministerio de Producción, Comercio Exterior, Inversiones y Pesca, 2022).

To talk about the import quota of finished vehicles and CKD (parts) in Ecuador, we will have to go back to 2015. According to data from the Association of Automotive Companies of Ecuador (AEADE), between imported vehicles and CKD, in the year 2015 the quota was 84,000 vehicles, for this year a decrease in sales of 31% was planned, equivalent to about 37,000 units less in contrast to the year 2014, this due to the low demand of buyers at that time (Lino & Lino, 2016).

In this same year, 25,617 vehicles assembled in different parts of the world arrived in Ecuador, but only 23,285 cars managed to enter. In Article 2 of the COMEX it is determined that the quotas will be managed globally, having a maximum of 349 units and if this is not met monthly, it cannot be accumulated. This quota was then used in four quarterly parts, that is, starting from the normal year, the quota was used in a period from January to March, from March to July and so on. The chassis will also be managed by quotas and 2,403 units could be acquired, if an increase in import quotas was found for parts that are assembled in Ecuador, it could be agreed to import 400 more units and it will be SENAE who will send an annual report to COMEX of the use of determined quotas (Lino & Lino, 2016).

Within this same year, 2015, the Foreign Trade Committee resolved to increase the vehicle import quota to 25,617 units, based on the report presented by the National Customs Service of Ecuador. This increase was focused on the most commercialized brands within the country such as Nissan, Hyundai, Renault, Toyota, Ford, Volkswagen and Mazda. For this COMEX resolution, the amount was increased from \$264.2 million to \$299.9 million (El comercio, 2015).

For imports of CKDs, the quota will be traded among the four assembly companies inspected in the country, in order to maintain operations and continue employment. In addition, in the case of finished vehicles or CBUs, the global import quota of \$280 million will be commercialized in four similar quotas managed in cumulative quarters of \$70 million. It is worth mentioning that this fee does not apply and does not include purchases made by individuals with disabilities and will be handled entirely by the Ecuadorian Customs Service (SENAE), through the use of the ECUAPASS platform (Lino & Lino, 2016).

In 2016, import quotas were imposed for light and heavy vehicles, but in the third quarter of this same year the elimination of quotas for subsequent years was announced, and this measure was also adopted by the current government. In addition, the government grants for the last quarter of each year a quota of \$51 million dollars additional to the \$280 million planned for the year 2016. Safeguards are also imposed for the importation of heavy vehicles and auto parts in order to protect the local production, but vehicles with a cylinder capacity of less than 1000cc are excluded from this safeguard. Finally, the Ministry of Industries eliminated the system that governs import quotas for goods that are subject to technical regulation (AEADE, 2020).

### **3.2 Requirments to import vehicles**

When an import process is intended to be carried out and in the specific case of this investigation of a fleet of vehicles, processes and terms that must be carried out through the website of the National Customs Service of Ecuador must be taken into account, with these steps The company will have everything necessary for the import to be carried out correctly and according to national regulations. Among which we have:

### **3.2.1 Register in ECUAPASS:**

Through its website (<http://www.ecuapass.aduana.gob.ec>), you can carry out any customs procedure within Ecuador related to foreign trade, whether import or export (Servicio Nacional de Aduana del Ecuador, 2021).

Next, the first requirements necessary to carry out imports or exports are explained:

#### **3.2.1.1 Obtain importer registration**

To obtain the importer registration and bring vehicles to the country, the following must be fulfilled (Servicio Nacional de Aduana del Ecuador, 2021):

- Acquire the single taxpayer registration in the SRI (Internal Revenue Service).
- Access the electronic signature access, through a digital certificate, which can be obtained through the Central Bank or through the security data page.
- Be registered in ECUAPASS.

#### **3.2.1.2 Import license approval**

This section refers to the approval provided by the Single Import Document (DUI) since most importers who bring more than 4,000 dollars in merchandise must have the approval before starting to bring their products, if they do not comply with this requirement it falls in smuggling. The company must take into account the quantity, because in this case will exceed the established amount so the documents must be in order. Considering that it is intended to export vehicles to Ecuador from China, the quarter in which the export is intended should be considered, hence the importance of correctly filling it out, after this, the company that in this case is Innovauto S.A, will be able to import vehicles by relating the amount to the total import cost. The assigned value will

be granted to the person who carries out the procedure and will be based on the sales that they intend to make within the national market, without exceeding the assigned quota for the current year. The backup information can be consulted on the ECUAPASS website (<https://ecuapass.aduana.gob.ec/>), with unique access to those who are registered with their RUC.

There are several reasons why an import can be denied approval (Estrada, 2004):

- ✓ Due to disparity in the RUC number
- ✓ The importer is disabled in the import system
- ✓ If the heading or subheading represents prohibited import products
- ✓ If the request or prior authorizations are not included in the DUI
- ✓ If the signatures do not match those of the officials in charge
- ✓ The DUI is filled out incorrectly

### **3.2.2 Obtaining import license**

In the national territory, this license is called DUI, being an official document necessary to carry out the importation of vehicles, it is acquired at the Ecuadorian Single Window - VUE of the National Customs Service of Ecuador and is processed by the person who needs to import vehicles to the country.

### **3.2.3 Vehicle import application forms**

- ❖ **Form A:** It is valid only to bring a product, that is, a single tariff item. Ex: automobile.
- ❖ **Form B:** It is used to bring more than one item, for example, in the case of importing vehicles, accessories, radios, etc. This form consists of 4 spaces, since



4 items or subitems can be placed in it, it all depends on the number of objects to be imported (Servicio Nacional de Aduana del Ecuador, 2021).

#### **3.2.4 Customs clearance:**

Process by which the goods from international destinations are nationalized to the Ecuadorian territory, the same ones that acquire a customs regime according to the goods. The previous process for this process is to obtain the DAI (Customs Import Declaration), which states the port of origin and destination, transport document, freight, these in turn will be used by SENA E operators. It is worth mentioning that the merchandise for this research comes from China. Other documents described below are attached (Servicio Nacional de Aduana del Ecuador, 2021):

Accompanying documents: called prior control documents, the same ones that will be processed before the shipment of all imported merchandise (Art. 72 del Reglamento al Libro V del Copci).

Support documents: information from the DAI, these will be carried by the customs agent at the time the customs declaration is presented, and these are:

- Commercial invoice
- Transport document
- Documents established by SENA E
- Certificates of origin

After processing the DAI, the computer system of the National Customs Service of Ecuador will give you the customs declaration number and the capacity channel assigned to you. These data must be taken into account to carry out the import process in accordance with what is dictated by the protocol within the company Innovauto S.A.

### 3.3 Import Regimes

Also called customs regimes, they serve mainly for goods coming from abroad in this case from China, requested by the declarant based on current customs legislation, because all merchandise that arrives in the country will have to declare its final destination, clearly applied to the case of the vehicles. These are listed on the Ecuadorian customs website and are based entirely on customs legislation. Among which we have:

#### 3.3.1 Import for consumption (Regime 10):

Customs regime for definitive entry into the country, whose processes are established by the General Director of the National Customs Service of Ecuador. The merchandise that enters through this regime will have the possibility of circulating freely through Ecuadorian territory, once the customs taxation has been carried out, that is, once Innovauto S.A. carry out the respective procedures, imported vehicles may be marketed (Servicio Nacional de Aduanas del Ecuador, 2021).

### 3.4 Tariff classification of the product

The tariff item is a numerical code used to identify each product and to know the taxes that must be paid when importing it to a specific country.

According to annex 1, the tariff heading that will be used to import the vehicles to Ecuador by the company is the following:

**Table 9**

*Tariff heading*

Tariff heading/chapter	Detail	Source
------------------------	--------	--------

Chapter: 87	It refers to “automobile vehicles, tractors, velocipedes and other land vehicles; its parts and accessories.	(Comité de Comercio Exterior COMEX, 2017)
Departure (Chapter location): 8704	It refers to “automobile vehicles for the transport of goods”.	(Comité de Comercio Exterior COMEX, 2017)
Subheading: 870421	It refers to “total weight with maximum load less than or equal to 5 tons”.	(Comité de Comercio Exterior COMEX, 2017)
Nandina (Common Nomenclature of the Member Countries of the Andean Community): 87042190	It refers to “others”.	(Comité de Comercio Exterior COMEX, 2017)
Tariff item or Andean Integrated Tariff: 8704219099	It refers to “others”.	(Comité de Comercio Exterior COMEX, 2017)

Elaboration: Own

Source: Comité de Comercio Exterior COMEX (2017)

### 3.5 Trade policies

#### 3.5.1. Ecuador

Speaking about international trade, it should be noted that it refers to the movement of goods and services between several countries, to increase the number of products within the different markets. The trade is carried out using foreign currency and

is subject to additional regulations imposed by the participants where the countries of origin are also involved, that is, each country has its own trade policies that include rules and laws to take care of its economy. When commercial exchanges are carried out, the countries that get involved have benefits since their products are positioned in a better way and in turn enter foreign markets. At this point we can highlight the advances in trade policies that Ecuador has with countries such as Canada, Mexico, Chile, with actions that facilitate trade and strengthen the economy to promote investment and boost entrepreneurship. With the countries mentioned above there are trade agreements for agricultural products such as tropical fruits, cocoa, seafood, in addition to highlighting that the double taxation treaty is in force with Canada (Ceballos, 2017).

Continuing within Ecuador, speaking of the issue of trade policies, it is important to mention the Foreign Trade Committee (COMEX), which is the body in charge of approving national public policies on trade matters, it is a public intersectoral body in charge of regulate processes and matters related to this matter. Through Executive Decree No. 25, the Foreign Trade Committee is restructured and in turn is made up of the following entities (Asamblea Nacional del Ecuador, 2013):

- Ministry of Foreign Trade and Customs activity
- Ministry in charge of agricultural policy
- Ministry in charge of industrial policy
- Ministry linked to productive development
- Ministry with economic policy function
- Ministry responsible for public finances
- National Planning Agency
- Ministry with functions in strategic sectors
- The Internal Revenue Service (SRI)

- Institutions established by the President of the Republic by executive decree.

The Foreign Trade Committee is the entity in charge of regulating and formulating trade policy and associated with the organic code of production, trade and investment, provides various trade policies that will be used for the proper management of international trade, among which are (Poveda et al., 2018):

- Internacionales negotiations
- Tariff policies
- Policies for the development of special regimes
- Approve export plan
- Measures to curb unfair trade

In addition to this, state intervention is also proposed, to protect the national market, trying to adapt mechanisms, which in turn will be considered as tariff policy, becoming a barrier against products and services from abroad, focusing on the collection of tax revenue. All these measures bear the name of protectionist. Within this point certain actions are intended to defend markets and national production, through trade barriers, which in turn affect the international market and are part of Ecuador's trade policies. (Poveda et al., 2018).

All these restrictions influence the trade models and the competitive situation of Ecuador. In many cases, the consequences are seen for both parties, that is, for the country of origin and the country of destination. Ecuador's trade policies are for the most part reasonable and have been accepted by all the countries with which product exchange relations are established, knowing that within this issue, there are also regulations that promote unfair competition since their sole purpose is getting rid of the competition, implementing subsidies that aim to close the field for the importation of foreign products,

it is important to mention that each country creates its commercial policies and does not need the acceptance of any other country (Poveda et al., 2018).

More in depth on the issue of trade policies in Ecuador, COPCI is the one that regulates all these activities, legislation that has been in force since 2010 when it was created by the government of Rafael Correa. The COPCI among its functions aims to regulate all the stages involved in the process of production, exchange, distribution, consumption, trade, management of externalities that are oriented to good living (COPCI, 2010).

In accordance with this Law, Ecuador and its commercial policies plan to increase non-oil exports with an added value, thus attracting foreign investment through investment incentives, also defining priority sectors, managing to decentralize the economy, substituting imports with production good-quality, develop special economic development zones, and give more ease and priority to foreign trade (Guzmán, 2019).

Currently, Ecuador's trade policies have been consolidated in a more pragmatic way, taking advantage of the investment opportunities that trade agreements bring with them. Within this point, the Multiparty Agreement between the European Union and Ecuador is striking, the same one that has been in force since January 2017, complying with the nature of a commercial agreement, where the differentiation and cooperation between a developing country vs. a developed country They can constitute a way where the country's products compete better in international markets, and in turn also be able to protect products that have a certain disadvantage against an increase in imports (Guzmán, 2019).

Similarly, and thinking of Europe as a strong partner for the country, in mid-2016 negotiations began for an economic association agreement with the European Free Trade

Association, which is made up of: Switzerland, Norway, Iceland, Liechtenstein, the same that was signed in June 2018 and sought to internationalize and empower Ecuadorian products in markets where they lacked competitiveness. Of these new agreements signed with the EU and EFTA, the country has an export potential that is linked to manufacturing and natural resources with a lower added value such as: shrimp, bananas, flowers, handicrafts. While the European market focuses on the export of manufacturing and services with high added value such as machinery, medicines, industries and automobiles, which is the central theme of this research (Ministerio de Comercio Exterior e Inversiones. Ecuador., 2017).

On the subject of trade and import policies, in the last quarter of 2021 Ecuador was among the best countries that improved its business climate, which caused it to position itself as a leader in Latin America, this helped by the trade policies that it brought with President Guillermo Lasso for the development of the country's economy. Likewise, Ecuador grew by 34.7 points to stand at 117.5 in the last quarter of that year, led by the Ministry of Production, Foreign Trade, Investments and Fisheries (Ministerio de Producción, Comercio Exterior, Inversiones y Pesca, 2022).

Ecuador intends to sign an agreement with Mexico to try to join the Pacific Alliance, the same one that will have an appointment in the United States this year. To improve the issue of importing products, it is also trying to reach agreements with the Russian Federation, Canada, and Panama, since it is intended that based on these more investors invest in the country (Ministerio de Producción, Comercio Exterior, Inversiones y Pesca, 2022).

### **3.5.2. China**

China's trade policies have evolved over the years. To begin with, an isolation cap occurred in the thirties when the country was influenced by an autarkic economic regime, where the relationship with the West was very little. During this period their participation fell sharply, as all foreign investment was restricted. All investment was subject to regulations by the government, given all these problems in China, production problems arose, added to the abandonment of goods used by the population, this is mentioned because China little by little was strengthening its foreign trade, but at first it turned out to be difficult (Maddison, 2007).

Continuing with the seventies and it is the trend that continues to the present day of being a country that competes internationally and successfully in international trade, this country has remained an excellent commercial force in the world market, especially in manufactured products. Due to the large supply and the large market, its cheap labor and global competitiveness, it has boosted foreign investment, which translates into an increase in imports and exports (Li, 2007).

China's economic policy in the 1990s was transformed into a potential growth economy, in order to increase the well-being of its population. But to get to this point, a change in the political and social structure was necessary, at that time liberal economic reforms were not a priority in the face of a latent need for a stable policy, in 1991 there was a strong national financial crisis that made that their priorities be redefined and they opt for a liberal ideology commanded by the leadership of Deng Xiaoping, with China becoming one of the pioneer countries in opting for this solution, followed by countries like India and Japan (Hernández, 2011).

It should be mentioned that China is a State-Party regime, recognized as a people's republic, where there is a command and leadership figure for the entire population that is based on a single party, so it is possible to make decisions much faster, but in some cases,



this is not well seen or received by others. Members of the same party, as is the case in China, if they do not agree, can discuss their issues and see if they change any conditions. For the release of trade policies in later years, this has a lot to do with it, since it was done more easily and quickly, since it is consulted at the same time when the entire party is meeting and not due to fights between different political parties, as well that the government and its policies have a lot to do with this issue (Cesarin, 2005).

Over the years and thanks to the change in its trade policies added to the huge surplus, China has become the largest exporter in the world and the second largest importer, coming to be classified as a more liberal and less protectionist country, very different As seen in the previous paragraphs where much was protected, however, it has strict foreign trade policies, which represented 35% of GDP in 2020. China mainly exports electronic and electrical equipment with 27%, nuclear reactors, machinery, boilers (17%), prefabricated buildings, furniture, illuminated signs (4.2%), plastics (3.7%), optical, medical and technical equipment (3.1%), textiles and used clothing (2, 9%) (Banco Mundial, 2022).

The main products that the country imports are: electronic and electrical equipment (27%), fuels, distillation products and oils (13%), boilers and machinery (9.3%), iron ore ash and slag (8. 8%), photographic equipment, doctors and technicians (4.8%), vehicles of different categories (3.6%). The International Monetary Fund estimates a rebound of 5.7% in the quantity and volume of exports of goods and services from China in 2022, since in 2020 it increased by 4% and imports only increased by 3.2% in 2022 , jumping from 10.9% in 2021 and 0% in 2020, said rebound is estimated from 2020 to 2022 (Fondo Monetario Internacional, 2021).

On the subject of the free entry or exit of products, China has wanted to reinforce this strategy, which is why, with the help of 15 Asian countries, they have agreed to create

a free trade area, which comes from Beijing, called the Regional Comprehensive Economic Association, which is it finds Japan, China, New Zealand, Australia, South Korea, and 10 more countries of the Association of Southeast Asian Nations, where India and the United States are excluded. Similarly, in Beijing, a free trade area was formed that gives a total of 32.2% of world GDP, 32.5 of global investment and 29% of world trade.(El País, 2019).

### **3.5.3. Trade agreements**

Relations between Ecuador and the People's Republic of China formally began in the 1980s. After Ecuador had overcome political instability and returned to democracy. After this in 1971 at the UN General Assembly, Ecuador pronounced itself to give China its legitimate representation. Both countries have greatly increased their relationship in economic, diplomatic, political, and strategic fields during the 21st century, taking into account the rise of China as a world potential (Reyes & Chun Lee, 2017).

Specifically on the subject of China, three dimensions should be discussed that are articulated to achieve two main objectives, which are the increase in trade policies and the importation of products into the country. The first dimension has to do with ensuring the supply and internalization of all Chinese companies. The second focused on promoting a self-sufficient development of all the countries that cooperate. Finally, the last dimension that refers to the acceptance and support that China needs with the countries it collaborates with and within its own country. In the last ten years, relations between Ecuador and China have increased, due to the growth that the Asian country has had since it remains among the top ten economies on a global scale, which led to the expansion of negotiations with other countries, being Ecuador with which technological, economic, regional areas, among others, were strengthened (Chávez, 2016).

Due to the signing of trade agreements, the private sector benefited from the purchase by China of products such as mango, pitahaya, guava, pineapple, shrimp, among other aquaculture and agricultural products. Sanitary barriers imposed on bananas were also reduced so that less documentation is needed. In general, imports from China exceed exports made to Ecuador by four, due to this an imbalance is generated in the country's trade balance, which is interpreted as bad since products with an Ecuadorian seal lose scope and potential customers (Alcívar, 2020).

An important point to highlight is that the international community's view is critical of unfair competition by Chinese industry, since its labor is cheaper and its currency is undervalued, set by its government. The presence of the Asian country in Ecuador is reflected in multiple projects, financial investments, civil, state and private works, but as mentioned in the previous point, it generates an imbalance in national production, due to the massive production of products and the easy entry they have into the country (Alcívar, 2020).

According to Palma (2022), President Lasso, on his trip to China in February 2022, had talks for a free trade agreement with the country since there is currently no agreement with them. The objective of this agreement is to boost sales in the agricultural sector between Ecuador and China, but it would disadvantage manufacturers, since they are emerging from a delicate situation due to the pandemic. Industries such as footwear or textiles would need extra protection, and with the signing of the FTA, the release could be gradual, so that Ecuadorian producers have the capacity to supply the competition as the market opens (Palma, 2022).

Knowing about trade agreements between Ecuador and China is included due to its importance in matters of future imports or exports, it is also important due to the increase in possible trade agreements with China, which would directly benefit vehicle

imports as is the case of the company within this investigation, since for this concept the tariffs for all the products that come from this China would be reduced, now \$140 million dollars a year is canceled to bring merchandise to Ecuador. Linking with the information obtained previously, the statistics of Chinese vehicles that are currently sold in Ecuador is 38% of the total automotive market, knowing this the signing of the possible agreement with China would increase the advantage compared to other brands (Ekos , 2022).

### **3.6. Commercial procedure prior to import**

#### **3.6.1 Provider quote- Proform Invoice**

The Proform Invoice is understood as a proforma invoice. This invoice is created with the purpose of complying with legal requirements, to export merchandise to different countries. It is also used in domestic trade, so that a potential buyer can have all the necessary information before closing a sale, this being a principle of agreement. It is a document for informational purposes only. It is issued by the exporter to clarify the conditions under which he wants to sell his merchandise, in turn it is requested by the importer to learn about the sale operation and is requested when he wants to know in depth details of the product as well as its characteristics and price (IONOS, 2019).

This invoice is quite common in international trade, since the vast majority of commercial transactions with certain countries are related to a declaration. In this way, if someone exports merchandise, its customs value must be declared. In most of these cases, a proforma is issued instead of a commercial invoice, all to meet customs requirements, having a purely informative function (IONOS, 2019).

#### **3.6.2 Technical specifications of the product**

The technical sheets are summarized documents that specify how the product is made, how it is transported, prices, discounts, and how it is stored, among others. They are powerful tools for the commercial area of any company, having the most important information summarized. The most important points to include are product identification and technical information (Dwit, 2018).

**The technical information of the products selected by the company for import is:**

### 1. Model HFC 1035 Double Cabin

VERSIÓN	
MODELO	HFC 1035 KR RUEDA SIMPLE
CABINA	DOBLE CABINA
PASAJEROS	5
CAJA	CHASIS/ABIERTA
TRANSMISIÓN	5 VELOCIDADES + RETROCESO
MODULO DE TRACCIÓN	TRASERA

MOTOR	
TIPO	HFC-4DA1-2B1 DIESEL 4 CILINDROS TURBO
NORMA DE EMISIÓN	EURO III
INYECCIÓN	DIRECTA
TURBO INTERCOOLER	SI
CILINDRADA (CC.)	2771
TORQUE MÁXIMO (NM/RPM)	240/ 2000
POTENCIA MÁXIMA (HP/RPM)	106/ 3600

FRENOS	
DELANTEROS / TRASEROS	HIDRÁULICOS CON ABS

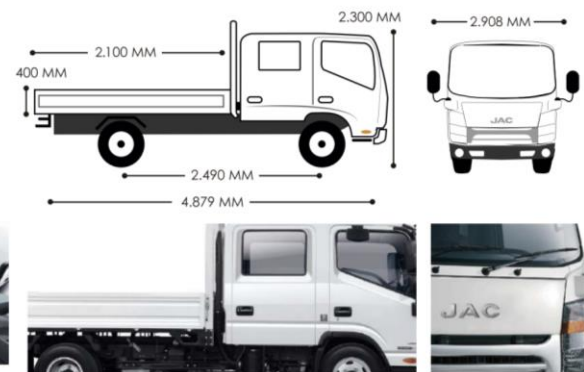
  

DIMENSIONES Y CAPACIDAD DE CARGA	
MEDIDAS EXTERIORES (LxAxH) (MM)	4879 X 2908 X 2300
MEDIDAS DE LA CAJA (LxAxH) (MM)	2100 X 1900 X 400
DISTANCIA ENTRE EJES (MM)	2490
MÍNIMO RADIO DE GIRO (M)	13.4
PESO EN ORDEN DE MARCHA (KG)	2380
PESO BRUTO TOTAL (KG)	4250
CAPACIDAD DE CARGA (KG)	1600
CAPACIDAD TANQUE COMBUSTIBLE (LTS)	100
NEUMÁTICOS	7.00 R16

EQUIPAMIENTO	
AIRE ACONDICIONADO	SI
RADIO	SI
ALZACRISTALES ELÉCTRICOS	SI
BLOQUEO CENTRAL	SI
ALARMA DE RETROCESO	SI
CAJA METÁLICA	SI
BARANDAS ABATIBLES	SI
CABINA ABATIBLE	NO
FAROS ANTINEBLA	SI
ODÓMETRO DIGITAL	SI
DIRECCIÓN ASISTIDA	SI
FRENO DE MOTOR	SI
VOLANTE MULTIFUNCIÓN REGULABLE	SI
BARRA PROTECTORA EN LUNETA DE CABINA PARA CARGA	SI

TIEMPO DE GARANTÍA	
	5 AÑOS O 150.000 KM



Source: Jac Motors (2022)

### 2. Model HFC 1035

<b>Modelo</b>	HFC 1035KN	<b>Suspensión</b>	Delantera Resortes semielípticos, amortiguadores hidráulicos
<b>Capacidades y Pesos</b>	Chasis Cabina	Trasera	Resortes semielípticos, con auxiliar amortiguadores hidráulicos
Peso Bruto Vehicular (kg)	4500	<b>Frenos</b>	De Servicio Hidráulico de doble circuito
Peso Neto (kg)	2.120	Freno auxiliar	De motor al escape
Carga Util (kg)	2.380	De estacionamiento	De tambor a la barra de transmisión
Capacidad tanque combustible (lt)	65	<b>Ejes</b>	Tipo Simple reducción
Largo Total (mm)	4.980	Delantero	Acero forjado tipo I
Ancho Total (mm)	1.725	Trasero	Tipo Banjo
Altura Total Camión (mm)	2.300	Relación final	6.142:1
Distancia entre ejes (mm)	2.490	<b>Sistema eléctrico</b>	
Ancho de vía delantera (mm)	1.440	Voltaje	12V
Ancho de vía trasera (mm)	1.395	Batería	12V 100 A
Dimensiones Chasis (mm)	170x70x5	Alternador	12V 60 A
<b>Carrocería (medidas interiores)</b>		<b>Performance</b>	
Largo / Ancho / Alto, carrocería (mm)	3.120- 1.620 - 400	Velocidad máx. (km/hr.)	100
Neumáticos	Z00R16 12PR	Radio de giro (m)	6
<b>Motor</b>		Pendiente máx. superable	35%
Tipo	4 cilindros en línea Intercooler, Turbo Diesel	Porta neumático repuesto	Incluido
Marca	JAC	<b>Cabina</b>	
Modelo	HFC4DA1-1B	Tipo	Corta abatible
Tipo de inyección	Bomba Inyección Rotativa	Asiento conductor	Regulable
Nro. de cilindros	4	Asiento acompañante	Banqueta 2 personas
Cilindrada (cc)	2.771	Techo	Escotilla techo regulable
Carera (mm)	102	Dirección servoasistida hidráulicamente	si
Díametro (mm)	93	Volante con altura regulable e inclinación	si
Torque máximo (Nm)	240 /2100-2300 rpm	Medidor de temperatura	si
Potencia máxima (HP)	109 HP/ 3600 rpm	Tacómetro	si
Relación compresión	17:1	Velocímetro	si
<b>Transmisión / Embrague</b>		Herramientas y gata hidráulica	si
Tipo	Manual 5 velocidades + 1 reversa	Radio CD	si
Modelo	LCST25M3	Ventana Trasera	si
Relación de marchas	1ra : 5,529	A/C y Extractor de aire	si
	2da : 2,782	Deflector de aire	NO
	3ra : 1,641	Vidrios eléctricos	si
	4ta : 1,090	<b>Garantía</b>	100.000 kms o 3 años (lo que primero ocurra)
	5ta : 0,785		
	MA : 5,271		
Tipo embrague	Monodisco Seco		
Díametro disco de embrague (mm)	250 mm		

Source: Jac Motors (2022)

### 3. Model HFC 1040

<b>VERSIÓN</b>	HFC 1040 KT / RUEDA DOBLE	<b>EQUIPAMIENTO</b>	AIRE ACONDICIONADO	OPCIONAL
MODELO	HFC 1040 KT / RUEDA DOBLE	RADIO	SI	SI
CABINA	CABINA SIMPLE	ALZACRISTALES ELÉCTRICOS	SI	SI
PASAJEROS	2	BLOQUEO CENTRAL	SI	SI
CAJA	CHASIS / ABIERTA	ALARMA DE RETROCESO	SI	SI
TRANSMISIÓN	MANUAL 5 VELOCIDADES + RETROCESO	CAJA METÁLICA	SI	SI
MODO DE TRACCIÓN	TRASERA	BARANDAS ABATIBLES	SI	SI
<b>MOTOR</b>		CABINA ABATIBLE	SI	SI
TIPO	HFC4DA1-1 DIESEL- 4 CILINDROS - TURBO	FAROS ANTINEBLA	SI	SI
NORMA DE EMISIÓN	EURO II	ODÓMETRO DIGITAL	SI	SI
INYECCIÓN	DIRECTA	DIRECCIÓN ASISTIDA	SI	SI
TURBO INTERCOOLER	NO	FRENO DE MOTOR	SI	SI
CILINDRADA [CC.]	2771	VOLANTE MULTIFUNCIÓN REGULABLE	SI	SI
TORQUE MÁXIMO (Nm/rpm)	240 / 1800 - 2000	BARRA PROTECTORA EN LUNETAS DE CABINA PARA CARGA	SI	SI
POTENCIA MÁXIMA (HP)	92 / 3600	<b>TIEMPO DE GARANTÍA</b>	5 AÑOS O 150.000 KM	
<b>FRENOS</b>				
DELANTEROS / TRASEROS	HIDRÁULICOS CON ABS			
<b>DIMENSIONES Y CAPACIDAD DE CARGA</b>				
MEDIDAS EXTERIORES (LxAxH) (MM)	5995 x 1908 x 2310			
LARGO / ANCHO / ALTO CAJA (MM)	4230 x 1810 x 400			
DISTANCIA ENTRE EJES (MM)	3360			
MÍNIMO RADIO DE GIRO (M)	5,3			
PESO EN ORDEN DE MARCHA (KG)	2480			
PESO BRUTO TOTAL (KG)	4980			
CAPACIDAD DE CARGA (KG)	2500			
CAPACIDAD TANQUE COMBUSTIBLE (LTS)	100			
NEUMÁTICOS	7.00 R16 12PR			

Source: Jac Motors (2022)

### 3.6.3 Shipping company quotation

Considering that the global market is very competitive, everything that has to do with delivery times will be very competitive. That is why, delivering a merchandise late would mean the loss of a customer and the company's bad reputation. Therefore, correct and timely delivery is a fundamental task in companies (Reyes, 2019).

Within this section, the importance of shipping companies in the global market is highlighted. These have the function of representing the client in terms of logistics, the same ones that work in a port in each country. Delimiting this point, it is important to mention that everything is driven towards expansion and free trade between countries, including international relations without any conditions, exports and imports will perhaps be the sustenance of world economies (Reyes, 2019).

The reason why it is important to quote is directly related to commerce, since they are the engine that moves a large industry. The shipping companies offer the timely logistics organization from their point of origin to their final destination, the time or period that will also depend on the cargo and this in turn on the regulations of each country, but the delivery is assured, in addition to also guaranteeing safety and costs. In this way, the following is highlighted about the importance of quoting with a shipping company (Reyes, 2019):

- It guarantees the delivery of containers due to the fact that it has an international network, which also has advanced technology for its logistics.
- It offers the client the possibility of growing their businesses, in an increasingly changing market.
- Provides agility and efficiency to all its customers.
- It offers an excellent logistics organization, optimizing delivery times, costs and security.

### **3.6.4. Insurance quotation**

Freight transport insurance focuses on safeguarding the value of products that are imported or exported, since they may have problems during their transport, regardless of the way they are transported. Every company must know the risks when it comes to moving merchandise, this with the intention of reducing them, insurance is the best option, since it provides protection to its products, taking care of its operations and its customers (Logycom, 2021).

The following list is the accident coverage covered by the companies dedicated to this, during the transport of their merchandise, already indemnifying or protecting the owner if some damages were to occur, in this case it will be specified of the maritime transport, the which are presented to the goods that travel by sea and are damaged due to (Logycom, 2021):

- Collision or sinking of the boat.
- Liability of all parties for collision.
- Loss of cargo during maneuvers, unloading or transshipment.
- If the use of auxiliary vessels is required, the coverage is maintained.

### **3.7 Calculation of import taxes**

Taxes must be paid compulsorily when a person enters foreign merchandise into a given country.

According to the organic code of production, trade and investments COPCI in article 108 indicates about the taxes that are:

- Tariffs duties.
- Taxes determined in the organic and ordinary laws.



- Frees for customs services.

In addition, there are other taxes and surcharges that are applied as a commercial defense measure, for example antidumping, safeguard, etc. that are not considered as taxes (Código Orgánico de la producción, 2018).

Next, the taxes to be taken into account in the importation of merchandise are mentioned and detailed:

**Table 10**

*Tax Code*

Name	Detail
Ad Valorem tariff	It refers to the percentage that is paid of the value of the merchandise plus insurance and freight.
Antidumping	It refers to taxes established in order to sanction the companies or countries that have been found to have dumped.
FODINFA (Child Development Fund):	All merchandise pays 0.5% since it is a specific value established and is administered by the INFA.
SAFP Consolidated Ceiling Percentage	The acronym SAFP refers to the Andean System of Price Bands in which its objective is to stabilize the cost of importing

	certain products when the products have a great variety in their prices.
Salvuardia	It is an additional tax that is established when a national industry is being affected by foreign prices.
ICE (Special consumption tax)	It is a tax that covers non-essential but luxury products, for example: perfumes, video games, cigarettes, etc.
AEC (Common External Tariff, of the Andean Community):	It refers to a tariff that countries determine to place a certain product.
VAT (Value Added Tax):	It is a tax that each country determines. In the case of Ecuador, 12% must be paid.

Elaboration: Own

Source: Servicio Nacional de Adunas del Ecuador (2022)

The tariff item to be used for the product to be imported is 8704219099. According to the tariff item, the taxes to be paid are identified.

According to annex 2, the taxes to be paid from the tariff item are the following:

- Ad.Valorem: 10%
- Fodinfra: 0.5%
- VAT: 12%

With the information obtained, tax calculations are made for each truck to be imported.

**Table 11**

*Calculation of taxes HFC 1035 double cabin model.*

<b>HFC 1035 DOUBLE CABIN</b>		
<b>PRODUCT DESCRIPTION</b>	<b>DETAIL</b>	
<b>BURDEN RO/RO</b>		
<b>TRUCK 1035</b>	LXWXH = 4.87X2.90X2.30	
<b>No. UNITS</b>		1.00
<b>VALUE OF THE MERCHANDISE</b>		\$19,980.00
<b>DISCOUNT</b>	3%	\$599.40
<b>VALUE OF MERCHANDISE INCOTERM EXW</b>		\$19,380.60
<b>TOTAL VALUE OF MERCHANDISE</b>		\$19,380.60
<b>ADDITIONAL EXPENSES FOR FOB VALUE</b>		\$150.00
<b>FOB</b>		\$19,530.60
<b>FREIGHT INTERNATIONAL</b>		\$6,497.60
<b>INSURANCE (FOB INVOICE VALUE + FREIGHT)</b>	1%	\$260.28
<b>TOTAL CIF</b>		\$26,288.48
<b>ADVALOREM (ABOUT CIF)</b>	10%	\$2,628.85
<b>SPECIFIC (\$ x No UNITS)</b>	0	\$0.00
<b>CONSOLIDATED ROOF (ABOUT CIF)</b>	0	\$0.00
<b>TOTAL TARIFFS</b>		\$2,628.85
<b>RELEASE OF TARIFFS</b>	0.00	\$0.00
<b>NET OF TARIFFS</b>		\$2,628.85
<b>FODINFA (ABOUT CIF)</b>	0.5%	\$131.44
<b>SALVAGUARDIA (ABOUT CIF)</b>	0.0%	\$0.00
<b>ANTIDUMPING (ABOUT FOB)</b>	0.0%	\$0.00
<b>ICE (CIF + NET OF TARIFFS + ANTIDUMPING + SALVAGUARDIA + FODINFA)</b>	0.0%	\$0.00
<b>IVA (CIF+ NET OF TARIFFS + ANTIDUMPING + SALVAGUARDIA + FODINFA + ICE)</b>	12%	\$3,485.85
<b>TOTAL TAXES</b>		\$6,246.14
<b>% ROYAL TAX</b>		\$0.24
<b>EX CUSTOMS GOODS</b>		\$32,534.63
<b>ESTABLISHED AGENT</b>	Base	\$300.00
<b>INTERNAL TRANSPORTATION GUAYAQUIL-MACHALA</b>		\$350.00
<b>TOTAL ESTIMATED PRODUCT VALUE IN INNOVAUTO</b>		\$33,184.63

Elaboration: Own

**Table 12**

Calculation of taxes HFC 1035 model.

<b>HFC 1035</b>		
<b>PRODUCT DESCRIPTION</b>	<b>DETAIL</b>	
CONTAINER	40 HC	
INTERIOR CONTAINER MEASURES	LXWXH= 12.03X2.35X2.70	
<b>CAVITY 2 TURCKS</b>		
TRUCK 1035	LXWXH= 4.98X1.73X2.30	
TRUCK 1040	LXWXH= 5.99X1.91X2.31	
No. UNITS		1.00
VALUE OF THE MERCHANDISE		\$14,990.00
DISCOUNT	3%	\$449.70
<b>VALUE OF MERCHANDISE INCOTERM EXW</b>		\$14,540.30
<b>TOTAL VALUE OF MERCHANDISE</b>		\$14,540.30
ADDITIONAL EXPENSES FOR FOB VALUE		\$150.00
FOB		\$14,690.30
FREIGHT INTERNATIONAL		\$3,975.00
INSURANCE (FOB INVOICE VALUE + FREIGHT)	1%	\$186.65
<b>TOTAL CIF</b>		\$14,876.95
ADVALOREM (ABOUT CIF)	10%	\$1,487.70
ESPECIFICO (\$ x No UNITS)	0	\$0.00
CONSOLIDATED ROOF (ABOUT CIF)	0	\$0.00
<b>TOTAL TARIFFS</b>		\$1,487.70
RELEASE OF TARIFFS	0.00	\$0.00
<b>NET OF TARIFFS</b>		\$1,487.70
FODINFA (SBOUT CIF)	0.5%	\$74.38
SALVAGUARDIA (ABOUT CIF)	0.0%	\$0.00
ANTIDUMPING (ABOUT FOB)	0.0%	\$0.00
ICE (CIF + NET OF TARIFFS + ANTIDUMPING + SALVAGUARDIA + FODINFA)	0.0%	\$0.00
IVA ( CIF+ NET OF TARIFFS + ANTIDUMPING + SALVAGUARDIA + FODINFA + ICE)	12%	\$1,972.68
<b>TOTAL TAXES</b>		\$3,534.76
<b>% ROYAL TAX</b>		\$0.24
<b>EX CUSTOMS GOODS</b>		\$18,411.72
ESTABLISHE AGENT	Base	\$300.00
INTERNAL TRANSPORTATION GUAYAQUIL-MACHALA		\$350.00
<b>TOTAL ESTIMATED PRODUCT VALUE IN INNOVAUTO</b>		\$19,061.72

Elaboration: Own

Table 13

Calculation of taxes HFC 1040 model.

<b>HFC 1040</b>		
<b>PRODUCT DESCRIPTION</b>	<b>DETAIL</b>	
<b>CONTAINER</b>	40 HC	
<b>INTERIOR CONTAINER MEASURES</b>	LXWXH= 12.03X2.35X2.70	
<b>CAVITY 2 TRUCKS</b>		
<b>TURCK 1035</b>	LXWXH= 4.98X1.73X2.30	
<b>TRUCK 1040</b>	LXWXH= 5.99X1.91X2.31	
<b>No. UNITS</b>		1.00
<b>VALUE OF THE MECHANDISE</b>		\$16,800.00
<b>DISCOUNT</b>	3%	\$504.00
<b>VALUE OF MERCHANDISE INCOTERM EXW</b>		\$16,296.00
<b>VALOR TOTAL DE LA MERCANCIA</b>		\$16,296.00
<b>ADDITIONAL EXPENSES FOR FOB VALUE</b>		\$150.00
<b>FOB</b>		\$16,446.00
<b>FREIGHT INTERNATIONAL</b>		\$3,975.00
<b>INSURANCE (FOB INVOICE + FREIGHT)</b>	1%	\$204.21
<b>TOTAL CIF</b>		\$20,625.21
<b>ADVALOREM (ABOUT CIF)</b>	10%	\$2,062.52
<b>ESPECIFICO (\$ x No UNITS)</b>	0	\$0.00
<b>IMP TECNO CONSOLIDADO (ABOUT CIF)</b>	0	\$0.00
<b>TOTAL TARIFFS</b>		\$2,062.52
<b>RELEASE OF TARIFFS</b>	0.00	\$0.00
<b>NET OF TARIFFS</b>		\$2,062.52
<b>FODINFA (ABOUT EL CIF)</b>	0.5%	\$103.13
<b>SALVAGUARDIA (ABOUT EL CIF)</b>	0.0%	\$0.00
<b>ANTIDUMPING (ABOUT FOB)</b>	0.0%	\$0.00
<b>ICE (CIF + NET OF TARIFFS + ANTIDUMPING + SALVAGUARDIA + FODINFA)</b>	0.0%	\$0.00
<b>IVA (CIF+ NET OF TARIFFS + ANTIDUMPING + SALVAGUARDIA + FODINFA + ICE)</b>	12%	\$2,734.90
<b>TOTAL TAXES</b>		\$4,900.55
<b>% ROYAL TAX</b>		\$0.24
<b>EX CUSTOMS GOODS</b>		\$25,525.76
<b>ESTABLISHE AGENT</b>	Base	\$300.00
<b>INTERNAL TRANSPORTATION GUAYAQUIL-MACHALA</b>		\$350.00
<b>TOTAL ESTIMATED PRODUCT VALUE IN INNOVAUTO</b>		\$26,175.76

Elaboration: Own

In the event of importing the trucks to Ecuador, the EXW value of the merchandise was considered the prices of the trucks determined in chapter 2 table 6. The FOB value is

an additional value that each company issues in the invoice for the mobilization in the country of origin of the merchandise, which was determined according to information provided by the company INNOVAUTO. Additionally, the cost of the customs agent, insurance and among other values are the base prices for importing trucks.

On the other hand, the value of the freight was quoted to the logistics company Austrocargo in which it detailed the following:

- The HFC 1035 double cab truck has exterior measurements LxWxH= 4.87x2.90x2.30, so it cannot be imported in a container due to the width of 2.90mm since the 40hc container has interior measurements LxWxH= 12.03x2.35x2.70. For that reason, the truck should be imported in a RO/RO cargo with 32.48m<sup>3</sup> which has a freight value of \$6,497.60.
- HFC 1035 trucks with external measurements of LxWxH= 4.98x1.73x2.30 and HFC1040 with external measurements of LxWxH= 5.99x1.91x2.31 can import both trucks in a 40 hc container since the internal measurements of the container They are LxWxH= 12.03x2.35x2.70 in which the two trucks fit perfectly.

In conclusion, it is determined that the HFC 1035 double cab truck the total value of the product estimated at INNOVAUTO S.A. is \$33,184.63. The HFC 1035 truck the total value of the product estimated at INNOVAUTO S.A. is \$19,061.72. Finally, for the HFC 1040 truck, the total value of the product estimated at INNOVAUTO S.A. is \$26,175.76.

### **3.8 Sales Contract**

Within any company when it goes to another level and requires establishing relationships with third parties to be closer to its objectives, it will necessarily require the preparation of contracts with its suppliers, this being part of its essential activities. Within

all commercial contracts, whether for goods or services, the supply chain, clauses and conditions are established between the parties, whether in terms of price, dates, application conditions, among other obligations. (ORCA, 2021).

The importance of drawing up a contract with the supplier is basically to protect the company against any breach or mishap, since this increases security for both sides and everything established must be complied with. But for this to happen without any problem, there must also be a control of suppliers, in this way integrating both will allow the company to manage, prevent and solve the risks in the management of its contracts. (ORCA, 2021).

In the same way, by already having a contract drawn up with suppliers, the risk that a clause may be breached will always be present, whether to a lesser or greater degree, this generates risks of damages and losses for the company. To prevent this from happening, an efficient administration system must be in place for all contracts, which ensures that imminent and contractual risks are avoided, thus optimizing the relationship and management of the entire company and, in turn, its performance and profits. (ORCA, 2021).

### **3.9 Bill of Loading- BL**

BL which stands for Bill of Lading, is a unique document that serves as evidence of the transport contract made between the shipping company and the shipper. In the shipping company it is issued by its agent and this in turn indicates that the merchandise has been received and will be transported to the port of origin of the selected ship, subject to the conditions agreed between the buyer and the seller of the merchandise. (iContainers, 2011).

The Bill of Lading is very similar to the boarding pass of an air trip, which corresponds to an international maritime shipment, answering the why, who, how and when of the process, which is why this method is always involved in the transportation process. Once the merchandise arrives at its destination, the Bill of Lading acts as cargo property, in turn the consignee needs to present this document to demonstrate the legality of the cargo and the merchandise is released, also functioning as evidence of the delivered product (iContainers, 2011).

### **3.10 Negotiation plan with the selected supplier**

Due to the importance of a correct negotiation that benefits the Innovauto company, the terms subsequent to this should be clear, the most important being the INCOTERMS. These acronyms are the compilation of International Commercial Terms, and which in turn are a set of rules for the purchase or sale of a product or merchandise. The supply, licenses, merchandise, authorizations, and formalities of both the buyer and the seller are considered within these rules (De Bogotá, 2008).

In customs issues, insurance issues, import or export, transportation, responsibility for receiving merchandise, all of this is detailed within these terms. Therefore, INCOTERMS are expressions in relation to the price of merchandise in different situations and moments throughout the process of an object to an international market. Although the prices are different in different countries, the benefit will be for the seller, in few cases not when they have discounts for high-volume sales, burden, that importers may consider (De Bogotá, 2008).

#### **3.10.1 Terms of negotiation INCOTERMS**



In this case, the terms EXW, FOB and CIF will be chosen. Understanding FOB as an abbreviation for Free On Board or Free on Board, consisting of a door-to-door shipment. This means that when negotiating under FOB term, the charges are borne by the supplier, which is understood as transportation to the port, customs clearance and cargo management. This will also imply that it will be necessary to contact a carrier for the goods once they are already on the ship (Transporteca, 2022).

On the other hand, the term is the abbreviation for Ex Works, which means in the factory and refers to the fact that the supplier delivers the merchandise in its store or facilities and is not responsible for costs or risks at the time of import. (Transporteca, 2022).

The CIF incoterm is an abbreviation for Cost, Insurance and Freight, which is Spanish for cost, insurance, and freight. This Incoterm establishes that the supplier or seller of the merchandise is responsible for contracting and paying the values of international maritime freight and insurance (iContainers, 2022).

### **3.11 International payment method**

For this import process, it will be paid by bank transfer, being 30% in advance and 70% before delivery.

### **3.12 International means of transport**

For this occasion, maritime transport or logistics will be used and it is one of the most demanded worldwide. The different types of containers and vessels used are adapted to practically any product, and it is considered one of the most sustainable means of transport. Having this background, prices can become more competitive compared to large-scale transport, since the cost is lower by sea than by air (Moldes, 2020).

Within this means of transport, groupage is also available in regular traffic, since with this you can optimize the space in the container to get the most out of the load. Knowing that large trucks are going to be exported in a considerable volume, the better the volume and distribution space should be. Flexibility will also be an important aspect since small or large vessels will be used depending on the product. Finally, taking into account that the product will be exported from China, international transport can be carried out over great distances (Moldes, 2020).

## **Conclusion**

Concluding with this chapter, the issue of the prices of the vehicles to be imported and their value within the national market should be considered at this stage, taking into account that insurance, freight, and taxes must be paid in the import process. It will be important to clarify if it will be cheaper to import them, or if it is more convenient for the company to continue buying from national suppliers. In this way we have:

- In table 12, the HFC 1035 double cabin model, the value of the vehicle imported directly by the company already has a value in the Ecuadorian market of \$33,184.63, compared with the information in table 4, the price at which it is sold in the national market is \$25,990.00, which means that the value of the car imported directly by the company is 22% more than the value of the car purchased from national suppliers.
- In table 13 of the HFC 1035 model, the value of the vehicle imported directly by the company already has a value in the Ecuadorian market of \$19,061.72, compared with the information in table 4, the price at which it is sold in the national market is of 19,890.00, which represents 5% less in the price of the vehicle if it is imported directly by the company.

- In table 14 of the HFC 1040 model, the sales cost that it has when purchased from national suppliers is \$26,175.76, compared to the information in table 4, the price at which it is sold in the national market is \$22,990.00, which means that the value of the car imported directly by the company is 12% more than the value of the car purchased from national suppliers.

In this way, only the HFC 1035 model would imply a profit for the company, the other two options are not seen as convenient because the import costs cause the final cost of the vehicle to be higher than the sale price that they currently have in the national market.

## **Final conclusions**

The objective of this research work was the elaboration of a plan to import vehicles from China for the company INNOVAUTO S.A. from the city of Machala-Ecuador. It is composed of three chapters whose content contributes to the achievement of this objective. The first chapter had the objective of carrying out an analysis of the company and the automotive sector in the city of Machala in Ecuador. The main theories of foreign trade were included, the analysis of the national automotive sector where the best-selling vehicle brands are derived, to continue with the automotive analysis of the city of Machala. Finally, the analysis of the company INNOVAUTO S.A. was carried out where its historical review, purposes, organizational structure, SWOT matrix and competitive advantages within the market were included. This is very important because it is the prelude to the following chapters, since it gives a diagnosis of the national automotive market and the current situation of the company, in addition to the theoretical compendium about foreign trade, which supports all the research.

The second chapter had the objective of carrying out a study and comparative analysis of Chinese suppliers and specific products to be imported. In the same way it is important since it mentions the demand for Chinese cars within the country, the vehicles that are intended to be imported are selected considering their demand in the local market, which in this case is the city of Machala, in turn the products with their most important characteristics. Subsequently, a comparative analysis is carried out to continue with the comparative analysis of the suppliers, which identifies the most important criteria to be taken into account to make a correct selection. This part makes it possible to identify the importance of analyzing the demand for Chinese automobiles and the option to import them within the country due to the various characteristics that differentiate them from

traditional brands, also because it makes it clear which is the most suitable supplier for this process, under parameters such as prices, logistics, experience, etc.

The third chapter had the objective of elaborating an import plan for the company INNOVAUTO S.A., information related to the import quotas that are in force in the country, the requirements to import vehicles, the commercial policies of Ecuador and China and all the import tax calculations that apply in this case. This is very important because the cost of importation is known with certainty, considering insurance payments, freight, etc., of each of the options chosen for importation, as well as the specific requirements to follow this process. The key approach of this chapter is to set the precedent so that anyone using these steps can go through a successful process, as each of the steps is detailed and clearly explained.

## **Final recommendations**

Having concluded all the research, it is important to mention that only one of the three selected vehicle options would represent a possibility for the increase in the profit margin that the company currently has. Specifically, this is the HFC 1035 model; the other models, compared to the prices at which the vehicles are currently marketed, have higher costs if they are imported directly by the company INNOVAUTO S.A., this is due to the costs that must be covered such as freight, insurance, taxes, etc. With this it is concluded that it is not an option that would bring benefit to the company, so it is not recommended.

However, with respect to the company's capacity to carry out a direct import, it is mentioned that the company INNOVAUTO S.A. has extensive experience in the market of the city of Machala, one of its great strengths is having its own premises to market and therefore have the capacity to house imported vehicles. Additionally, by having alliances with banks for financing, you will be able to cover import expenses without problem. Its weakness in a certain way has to do with the fact that it does not have an import department, that is, it does not have trained personnel to carry out this task, which means an obstacle in the process in the event that it is decided to import the selected vehicles. Therefore, it is very necessary for the company to implement its import area, it is recommended that the company have trained personnel in the area so that each import is successful.

As for the providers, the selection was made based on criteria that are considered important within the investigation for the process to be successful. It is, however, very important to clarify as a recommendation that it would be a good idea, in future investigations and plans, also consider vehicles from European countries that have the classic brands and also provide ease for the import issue. As mentioned in chapter 2, the

idea of importing Chinese vehicles is justified by the fact that they have better characteristics than traditional brands.

Finally, it is very important that the company considers all the steps described in the final chapter so that the import process is a success. You must have all the papers in order, be within the specific regime because these vary according to the need for importation. It is necessary to emphasize that in the country this entire process is carried out through the ECUAPASS website, where all the processes will be detailed, as well as the status of the merchandise and its logistics. Finally, it is important to emphasize that all the steps must be followed in order without skipping any of them, because as described within the investigation, if for any reason an error is made within the process, it will be invalidated.

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## Annexes:

### ANEXED 1 TARIFF HEADING Capítulo 87

#### Vehículos automóviles, tractores, velocípedos y demás vehículos terrestres, sus partes y accesorios

##### Notas.

1. Este Capítulo no comprende los vehículos concebidos para circular solamente sobre carriles (rieles).
2. En este Capítulo, se entiende por tractores los vehículos con motor esencialmente concebidos para tirar o empujar otros aparatos, vehículos o cargas, incluso si tienen ciertos acondicionamientos accesorios en relación con su utilización principal, que permitan el transporte de herramientas, semillas, abonos, etc.  
  
Las máquinas e instrumentos de trabajo concebidos para equipar los tractores de la partida 87.01 como material intercambiable siguen su propio régimen, aunque se presenten con el tractor, incluso si están montados sobre éste.
3. Los chasis con cabina incorporada para vehículos automóviles se clasifican en las partidas 87.02 a 87.04 y no en la partida 87.06.
4. La partida 87.12 comprende todas las bicicletas para niños. Los demás velocípedos para niños se clasifican en la partida 95.03.

##### Notas complementarias nacionales.

1. Los vehículos desarmados en CKD, se clasificarán en el presente Capítulo.  
  
Se entiende por CKD el conjunto formado por componentes, partes y piezas importados por las industrias ensambladoras de vehículos debidamente autorizadas, que se importen desarmados, de uno o más orígenes, siempre que formen parte del mismo conjunto CKD y estén destinados al ensamblaje de vehículos y siempre que cumplan como mínimo, con el siguiente grado de desensamblaje:
  - 1.- Estructura de la cabina sin pintura ni acabado, desarmada en los siguientes componentes piso, laterales de cabina y techo cuando lo tenga;
  - 2.- Chasis desensamblados
  - 3.- Bastidor desensamblado o ensamblado en rieles o travesaños
  - 4.- Tren motriz desensamblado en los siguientes conjuntos: motor, transmisión, embrague, frenos, suspensión y ejes delanteros y traseros.
2. Se entiende por CKD para motocicletas y motonetas el conjunto formado por componentes, partes y piezas importadas por las empresas ensambladoras de motocicletas debidamente autorizadas, que se importen desarmados, de uno o más orígenes, siempre que formen parte del mismo conjunto CKD, y que estén destinados al ensamblaje de motocicletas y siempre que cumplan como mínimo, con el siguiente grado de desensamblaje:
  - 1.- Las partes metálicas de carrocerías y el tanque de combustible podrán venir con protección antioxidante o base (primer) y con o sin pintura.
  - 2.- Los chasis o bastidores podrán venir en una o varias piezas. No obstante podrán venir con protección antioxidante o base (primer) y con o sin pintura.En las motonetas, el chasis y la carrocería constituyen una sola pieza.
- 3.- El tren de propulsión, desensamblado en los siguientes puntos:
  - a) Conjunto motor, incluido el motor, embrague y freno trasero en aquellos casos en que formen parte del mismo conjunto.
  - b) Conjunto suspensión delantera;
  - c) Conjunto de frenos delanteros y traseros, con la excepción mencionada en el literal a); y,
  - d) Ruedas y ejes delanteros y traseros.

4. Vehículo de tres ruedas simétricas al eje longitudinal, configurado con una rueda delantera y dos en la parte posterior; pueden ser abiertos o cerrados, siendo destinados al transporte de pasajeros o de mercancías; con un cilindraje de más de 50 cm<sup>3</sup> ó velocidad mayor a 50 km/h y cuyo peso bruto vehicular no exceda de una tonelada.”

Se entiende por tracto carro: vehículo especial autopropulsado, dotado de tracción a dos o más ejes, especialmente dispuesto para circulación en terrenos difíciles y concebidos para el transporte en campo de productos o mercancías, en ciertas labores de cosecha y post-cosecha de cualquier actividad agropecuaria, pesquera y acuícola; con una velocidad máxima de fabricación igual o menor a 40 km/h y cuya plataforma de carga esté fijada permanentemente al bastidor y formen un conjunto homogéneo”

5. Se entiende por CKD de chasis equipado con su motor al conjunto formado por piezas y componentes importados por las industrias ensambladoras de chasis equipado con su motor debidamente autorizadas, que se importen desarmados, de uno o más orígenes, siempre que formen parte de un mismo conjunto CKD y estén destinados al ensamblaje de chasis equipado con su motor y provengan en el mismo embarque. Además que cumplan como mínimo, con el siguiente grado de desensamble:

1. Bastidor de chasis desensamblado o ensamblado en rieles, travesaños y tirantes.
2. Ruedas
3. Sujeciones de ballestas y muelles.
4. Soportes de carrocería, de motor, de estribos, de batería, de depósito de carburante, y otros.
5. Tren motriz desensamblado en los siguiente conjuntos: motor, transmisión, embrague, frenos, suspensión y ejes delanteros y traseros.
6. Sistema eléctrico
7. Sistema de escape de emisiones

<b>87.04</b>	<b>Vehículos automóbiles para transporte de mercancías.</b>		
8704.10.00	- Volquetes automotores concebidos para utilizarlos fuera de la red de carreteras:		
	- - Únicamente propulsados con motor eléctrico:		
8704.10.00.11	- - - En CKD	u	0
8704.10.00.19	- - - Los demás	u	0
	- - Equipados para la propulsión con motor de émbolo (pistón), de encendido por compresión (diésel o semi-diésel) y con motor eléctrico:		
8704.10.00.31	- - - En CKD	u	0
8704.10.00.39	- - - Los demás	u	5
	- - Equipados para la propulsión con motor de émbolo (pistón) alternativo, de encendido por chispa y con motor eléctrico:		
8704.10.00.41	- - - En CKD	u	0
8704.10.00.49	- - - Los demás	u	5
	- - Únicamente con motor de émbolo (pistón), de encendido por compresión (diésel o semi-diésel):		

Código	Designación de la Mercancía	UF	Tarifa Arancelaria	OBSERVACIONES
8704.10.00.51	--- En CKD	u	0	
8704.10.00.59	--- Los demás	u	5	
	-- Los demás:			
8704.10.00.91	--- En CKD	u	0	
8704.10.00.99	--- Los demás	u	5	
	- Los demás, con motor de émbolo (pistón), de encendido por compresión (Diésel o semi -Diésel):			
8704.21	-- De peso total con carga máxima inferior o igual a 5 t :			
8704.21.10	--- Inferior o igual a 4,537 t:			
8704.21.10.80	---- En CKD	u	40*	La reducción del arancel % Adv aplica conforme tabla del Anexo II de la Resolución No. 65 del COMEX, en base al porcentaje del producto ecuatoriano incorporado (PEI), Arancel Mínimo 15 %.
	---- Los demás:			
8704.21.10.91	---- Vehículo de tres ruedas	u	40	
8704.21.10.92	---- Tracto carros	u	0	
8704.21.10.99	---- Los demás	u	40	
8704.21.90	--- Los demás:			
8704.21.90.80	---- En CKD	u	3	
	---- Los demás			
8704.21.90.91	---- Vehículo de tres ruedas	u	0	
8704.21.90.92	---- Tracto carros	u	0	
8704.21.90.99	---- Los demás	u	10	
8704.22	-- De peso total con carga máxima superior a 5 t pero inferior o igual a 20 t:			
8704.22.10	--- Inferior o igual a 6,2 t:			
8704.22.10.80	---- En CKD	u	3	
8704.22.10.90	---- Los demás	u	5	
8704.22.20	--- Superior a 6,2 t, pero inferior o igual a 9,3 t:			
8704.22.20.80	---- En CKD	u	3	
8704.22.20.90	---- Los demás	u	5	
8704.22.90	--- Superior a 9,3 t:			
8704.22.90.80	---- En CKD	u	3	
8704.22.90.90	---- Los demás	u	5	
8704.23.00	-- De peso total con carga máxima superior a 20 t:			
8704.23.00.80	--- En CKD	u	3	
8704.23.00.90	--- Los demás	u	5	

Source: COMITÉ DE COMERCIO EXTERIOR COMEX, 2017

## ANNEXED 2

### TAXES ACCORDING TO TARIFF HEADING 8704219099

Código de Tributo	Código de Forma de Aplicación de Tributo	Fecha de Inicio de Vigencia	Fecha de Fin de Vigencia	Valor de
ARANCEL ADVALOREM	BASE IMPONIBLE	15/11/2016		10
ICE ADVALOREM	BASE IMPONIBLE	15/11/2016		0
SALVAGUARDIA	BASE IMPONIBLE	15/11/2016		0
PORCENTAJE TECHO CONSOLIDADO SAFP	BASE IMPONIBLE	15/11/2016		0
FONDINFA	BASE IMPONIBLE	15/11/2016		0.5

Código de Tributo	Código de Forma de Aplicación de Tributo	Fecha de Inicio de Vigencia	Fecha de Fin de Vigencia	Valor del Tributo
ANTIDUMPING	BASE IMPONIBLE	15/11/2016		0
AEC	BASE IMPONIBLE	15/11/2016		0
IVA	BASE IMPONIBLE	01/06/2017		12
INCREMENTO ICE	BASE IMPONIBLE	31/12/2019		0

Source: SENAE, 2022