University of Azuay

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FEASIBILITY ANALYSIS FOR THE INTERNALIZATION OF THE TEXTILE FACTORY JEANS TEX TO THE VENEZUELAN MARKET.

Graduation Work prior to obtaining degree in International Studies - Bilingual Mention in Foreign Trade

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DEDICATION

The present work is dedicated to God who has guided me on the right path and has given me the strength to continue ahead and never give up, knowing how to face problems and adversities.

To my parents for whom I am what I am. For their unconditional love, support and their advice. They have given me what is most important in my life, the principles, values, perseverance and all the courage to fight for my goals.

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ABSTRACT

The present investigation titled “Study of feasibility of exportation of Jean of the Jean-Tex factory for Venezuela” aims to determine the international viability of the factory product.

This study starts with an analysis of the current economic situation of Jeans Tex. Then it continues with a macro and micro economic analysis of the Ecuadorian and Venezuelan markets to determine the feasibility of the project. This allowed me to reach the main conclusion of the analysis.

The sale of the factory products abroad is not viable due to the current difficult situation in the Ecuadorian and Venezuelan economies, resulting in a variety of factors that limit the entry of new products into the Venezuelan market.

Keywords: Ecuador, feasibility, export, clothing.

TABLE OF CONTENTS

INDEX OF FIGURES

INDEX OF TABLES

ÌNDICE DE ANEXOS

CHAPTER I

COMPANY DESCRIPTION

1.1 Background

The beginning of textile production in Ecuador dates back to Colonial times. The first clothes were made with sheep and alpaca wool. Later, the first textile industries appeared which were dedicated to processing the wool. In the beginning of the 20th century, cotton was introduced, a material that boosted production. In the 50's, this fiber was consolidated as the primary raw material for textile production.

Ecuadorian textile companies have been constrained by lack of innovation and technology, leading to greater consumption of foreign textile products. Jean Tex Co. Ltd. is one of the companies in the city dedicated to manufacturing, distribution and marketing of textile products such as: jeans, towels and blankets. Due to its lack of innovation, knowledge and financing, the company has not been able to extend its product beyond the local market.

This factory was created with the firm conviction to expand in the local market to compete with the national factories, generate sources of work and perform for its shareholders within fair competition. It was born from the merger and entrepreneurship of three Cuencan brothers who decided to start a textile factory and was founded on April 5, 1990 in the city of Cuenca and began production on the following month.

At present, the general management and administration of the company is in the hands of one of the founding brothers of the factory who, in 2005, decided to improve the business and was forced to become independent, opting to add manufacturing domestic towels and sheets to their line of business.

This venture has been strengthened in recent years by the importation of fabrics, which are processed to create the final product, creating added value for each product and thus generating greater acceptance in the local market.

Currently, the factory manages a competitive business model called business model competencies. By importing textiles at a low cost, it lowers the prices of the finished product and generates competitiveness, strengthening its bases of growth and development. But its lack of innovation has not allowed it to have a greater market coverage. Therefore, analyzing its economic, financial and administrative environment was the basis for subsequently carrying out the study on its possible internationalization.

1.2 Process of Business Administration

The administrative process makes up the basic structure of every company. The administrative process follows four stages. The administrative process of Jeans-Text is as follows:

1.2.1 Planning

Objectives

- Achieve growth and development within the textile industry with value-added products.
- Compete within the local, national and international market with quality products and low prices.
- Be ahead of the competition by offering customers products with novel designs and fashion for their complete satisfaction

Mission

Jeans Text is an innovative company that offers quality products at comfortable prices and with novel designs to satisfy the customer. It is based on techniques and processes of continuous improvement and teamwork.

Vision

To be a locally and nationally recognized company for our quality products, innovation, financial solidity and responsible for manufacturing textile products, looking for doors in the international market.

Corporate Values

- **Responsibility towards clients:** Responsibly fulfill our obligations to the company, clients and society.

- **Teamwork:** Swift and efficient teamwork to effectively find solutions to satisfy our clients.
- **Commitment:** Our commitment to customers, the environment and society is to carry out our activities with maximum capacity, with the best attitude and safety to deliver value-added products to society.
- **Honesty:** Work transparently and tell the truth first and foremost in a way that can convey confidence to our clients and co-workers.

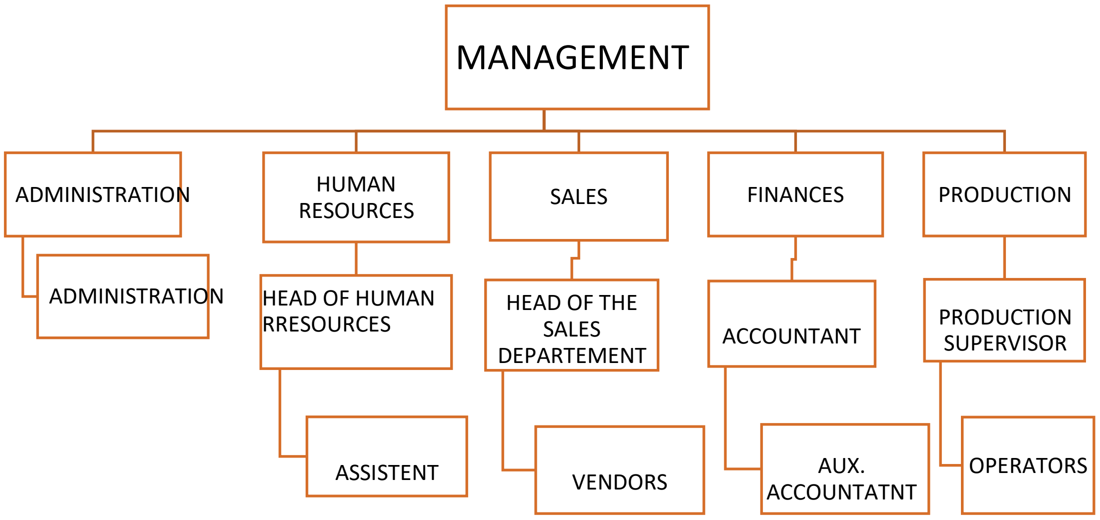
Strategies

- Generate economies of scale.
- Select highly trained staff.
- Offer quality products at affordable prices for the lower and middle class.
- To increase integral communication: publicity, communication, image, public relations, direct marketing, and promotion.
- Organization of the commercial department. Smart Sales.

1.2.2 Organization

The proper functioning of a company depends on the way in which it is organized. To carry out day-to-day activities Jeans Text has the following departments:

Figure 1 Organization Jeans - Text Co. Ltd



Source: *Author, based on information granted by Jeans Text Co. Ltd.*

The company has six operating areas. This organization aims to maximize the benefits of the factory through an organization of each of the departments.

The functions of each of the factory employees are detailed below.

Department of Administration: This department has a single member that has the following functions:

- ✓ Administrator
- ✓ Manage collections and payments
- ✓ Receiving invoices from suppliers

Department of Human Resources: There are currently two people who run this department, the head of the department and the assistant. Their functions are:

- **Head of HR Department**

- ✓ Select personnel
- ✓ Managing Payroll and Social Security
- ✓ Elaboration of work contracts and settlement minutes
- ✓ Attention to complaints and calls for attention to employees
- ✓ Monitor compliance with internal regulations by workers

- **Assistant**

✓ Control of company personnel: work schedules, absences, permits, vacations.
✓ Management of personnel documents.

Sales Department: This department has 6 employees who work as vendors and one person who is the department head. Each employee carries out the following functions:

- **Sales Department Head**

  ✓ Direct sales warehouse
  ✓ Meet company sales goals
  ✓ Improve product participation in the market
  ✓ Management and control of the department
  ✓ Address client complaints

- **Vendors**

  ✓ Customer Support
  ✓ Visit new clients
  ✓ Meet sales goals

Financial Department: The general accountant and the accounting assistant are in charge of this department.

- **General Accountant**

  ✓ Manage Cost and Financial Accounting
  ✓ Prepare the Financial Statements
  ✓ Compliance with tax obligations
  ✓ Plan, organize and control the company's financial resources effectively and efficiently.
  ✓ Control the different types of financial investments determined by the

manager.

- ✓ To carry out an effective system of accounting and financial controls.

- **Assistant Accountant**

  - ✓ Manage Tax Receipts
  - ✓ Perform bank reconciliations
  - ✓ Process invoices
  - ✓ Process Transactional Annex and respective documents for tax declarations
  - ✓ Manage company expenses

Production Department: This department consists of the sales supervisor and 10 operators.

- **Production Supervisor**

  - ✓ Plan production, etc.
  - ✓ Direction and control of the production process.
  - ✓ Inform the general manager about the problems in his department and the performance of employees within his area.

- **Operators**

  - ✓ Transform raw material into finished products, etc.
  - ✓ To completely fulfill the functions assigned to them by their immediate superior, such as: machinery handling, product dispatch, and finished product organization.

1.2.3 Management

The management and control of the company is the responsibility of the general manager. This person is the highest authority and makes decisions for the benefit of the company and represents the company in public or private affairs.

Each factory department has a department head in charge of coordinating and managing the assigned area.

One strategy that Jeans Text counts on is constantly investing in training for staff especially in the production department.

Decisions are made jointly with the factory management members consisting of the production, accounting, and sales department heads through a monthly meeting.

Leadership

The company's leadership is headed by the factory's general manager. The manager is characterized by being a highly trained person who likes to promote and encourage workers. The manager's work within the company is aimed at ordering, influencing and motivating workers to carry out their activities.

Motivation

Jeans Text is a company that offers its workers a system of fair compensation, social security and all social benefits. It is strictly governed by the labor code and rewards its workers for their performance as they fulfill their obligations.

The recognition given by the company to the workers are through performance bonuses which are delivered each year. Product suppliers are awarded commissions for sales. The bonus is given to all company employees who during the fiscal year have had greater compliance in their obligations and responsibilities with the company. The choice of the workers is made by the manager of the company through observation and information granted by the department of human resources. The bonus is equal to 25% of the monthly remuneration. This percentage varies each year.

The goals that are posed within the factory are directly related to production. That is, the manager together with the production supervisor, establishes a certain level of monthly production depending on last month's production which is usually between 350 to 400 jeans.

As well as delivering performance bonuses, the company penalizes employees who fail to comply with their obligations such as: working hours and wearing a uniform, with a discount on their monthly remuneration. The discount is made for delay in working hours for all workers. For each minute of delay there is a penalti of 0.50 cents, and for noncompliance in the use of the uniform discipline notifications are made by the department of human resources, especially for administrative personnel.

1.2.4 Control

Each department head is responsible for the performance and problems that arise within their area. They have the obligation to manage, order and communicate to the general manager about the needs and problems that arise.

The control of activities within the production department, which is the company's reason for existing, is carried out by the supervisor who establishes compliance goals every quarter. The head of the sales department sets the monthly production target depending on the level of sales of the previous month.

The general manager, together with the department heads, meets every month where the latter are obliged to report on the performance within their area, present problems, and possible solutions.

1.3 Targets

It consists of defining the population or population group to which the company wants to reach, ie, who are its consumers. In the case of Jeans Text, the target for which it is currently being managed is:

1.3.1 Segmentation

The segmentation of the company is currently the city of Cuenca and its macro and micro segmentation is defined below.

Macro segmentation

The consumer market is defined in this segmentation process. According to the 2010 Population Census in the Azuay region there are 712,127 people as can be seen in the Table 1.

Table 1 Population of Cuenca by Age Ranges

AGE RANGE	2010	%
From 0-4 years	68,737	9.7%
From 5-9 years	72,122	10.1%
From 10-14 years	75,507	10.6%
From 15-19 years	74,653	10.5%
From 20-24 years	69,231	9.7%
From 25-29 years	60,764	8.5%
From 30-34 years	48,898	6.9%
From 35-39 years	42,087	5.9%
From 40-44 years	36,718	5.2%
From 45-49 years	33,917	4.8%
From 50-54 years	28,624	4.0%
From 55-59 years	24,272	3.4%
From 60-64 years	20,762	2.9%
From 65-69 years	17,696	2.5%
From 70-74 years	13,682	1.9%
From 75-79 years	9,963	1.4%
From 80-84 years	7,494	1.1%
From 85-89 years	4,348	0.6%
From 90-94 years	1,916	0.3%
95 years and beyond	736	0.1%
Total	712,127	100%

Source: *Author, based on information taken from INEC*

Of the total population of Azuay, 71% recides InCuenca. The target market for Jeans Text is all people belonging to Cuenca who are between the ages of 10-44, or 289,565 people of the lower and middle economic class.

1.3.2 Micro-Segmentation

Micro-segmentation is defined by the characteristics or preferences that consumers have for the product. It is done by classifying the target market into partially homogeneous groups to know that population tastes in clothing. In this case, the market has been segmented according to the sex of the person, by age group, and socio-economic levels.

According to the National Income and Expenditure Survey for urban and rural households 2011-2012, the average household consumption of clothing and footwear is $51 per month and approximately 87% of the population is within the low, medium-low and medium strata. According to the National Income and Expenditure Survey, the average monthly income is $271 for the low stratum, $422 for the lower middle stratum and $550 for the middle stratum.

Jeans Text customers are both male and female between the ages of 10-44 and the comfortable price of the product makes it accessible for the lower and middle class.

1.3.3 Positioning

This is the definition that consumers give to the product in terms of certain attributes thus giving it a position relative to the competition.

The company's 25 years of experience in the production of jeans has caused its products to be known within the local market through the following strategies.

Quality Positioning

People have certain patterns of behavior when buying a particular product. They buy a product because they know the quality of the product, regardless of the price. Customers know the quality of product offered by the company in such a way that they keep in mind Jeans Text when buying jeans.

Competitive Positioning

The price of a product is a key factor when buying. With great competition in the textile industry, Jeans - Text has offered quality products at low prices according to the tastes of people by their age group.

1.4 Marketing mix: product, price, location promotion

Carrying out the analysis of marketing mix for the company Jean Text is important because it allows us to know what the shortcomings that the company currently has to later propose new alternatives that allow its optimal development.

1.4.1 Product

Jean - Text's line of business is the manufacture of jeans, including among its strengths the local demand for towels and sheets. The participation of each of the products within the line of business can be seen in Table N° 2.

Table 2 Current State of Production Standards

PRODUCTION LINE	PERCENTAGE
Jeans	75%
Sheets	16.67%
Towels	8.33%
TOTALS	100%

Source: *Author, based on information obtained from Jeans Tex C.L*

Of the total capacity, the company currently occupies 60%. The missing percentage for optimum development is to be compensated through structural improvements in the factory at the production level, sales, and product promotion.

With jeans being the product with the most demand in the market, it will be used for product analysis for this research. Jeans are necessary clothing for the entire population. Its assembly includes the importation of fabric, design, preparation, and even washing the clothing. Jeans from this factory are quality products. The customer can choose the clothing they wish as they are made in different sizes for ladies, gentlemen, and children as well as jeans in various designs to satisfy the taste and needs of customers. This clothing can be obtained in commercial outlets within the city or from the factory itself.

In recent years, the level of production of the company has grown according to market demand. Table 3 shows the number of units produced in Jeans for the last three years.

Table 3 Level of Production Jeans - Text

FISCAL YEAR	PRODUCTION LEVEL
2012	4,374 Units
2013	4,860 Units
2014	4,568 Units

Source: *Author, based on information provided by the company.*

In 2013 the company experienced a growth of 11.11% units in its production level of pants in relation to the year 2012. By 2014, its production level decreased by 6.00% compared to the year 2013.

1.4.2 Price

Jeans-Text works with the competitor-based pricing strategy, better known as the lowest-priced strategy. The use of this price strategy is because of a desire to deal with the competition by offering Jeans at the lowest possible prices.

In Table 4 the prices of each of the products offered by Jeans Text in the year 2014 can be seen.

Table 4 Product Prices for Jeans Text Year 2014

PRODUCT	PRICE BEFORE TAXES
Jeans	$17.30
Sheets	$15.45
Towels	$5.01

Source: *Author, based on information provided by the company.*

Jeans prices on the market for the last year of study was $ 19.38 including tax for the end consumer, while for wholesalers it was 18.60 per unit including taxes. The price of sheets and towels was $17.31 and $5.61, respectively, including taxes.

1.4.3 Location

The distribution channel used by the factory is through direct distribution and through intermediaries. Jeans Text has its own sales office and delivers wholesale clothing to commercial premises located within the city.

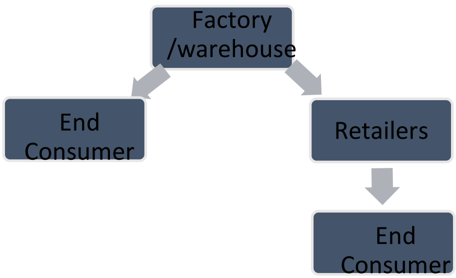
To attract more customers, the factory has staff that serve as suppliers. They are in charge of visiting various commercial premises door to door and offering the product within the city of Cuenca. All of the products are distributed in the city of Cuenca.

1.4.4 Promotion

Currently the factory does not have advertising channels. The knowledge that the population has of Jeans Text products is mainly due to suppliers offering the products through direct visits and the quality of their product.

The sales process currently used by the company can be seen in the following diagram.

Figure 2 Process of Jeans Sales



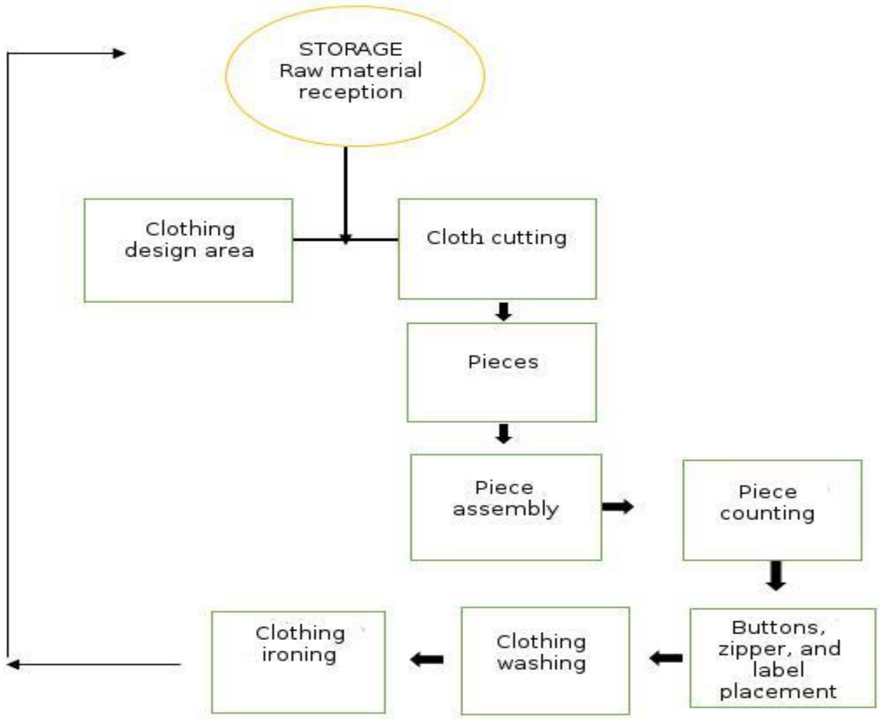
Source*: Author, based on information granted by Jeans Text Co. Ltd.*

1.5 Process of Production and Marketing.

The production department is the most important area of the company since it constitutes the basis of development and the means to achieve the main objective of its creation. In this area, Jeans Text products for the local market are manufactured and developed.

For the production of the Jeans, the raw material is acquired from abroad, processed inside the company and sold directly to the end consumer or through intermediaries who are responsible for getting the product to the end consumer. The production process is as shown below:

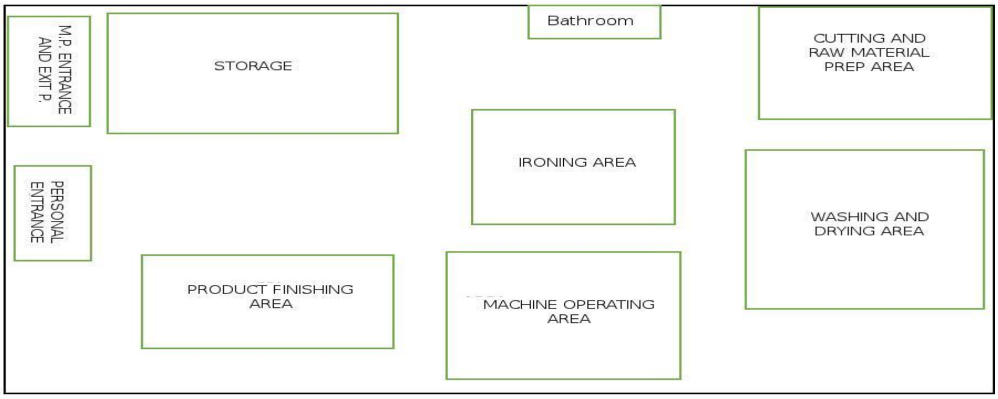
Figure 3 Production Process



Source and Creation: *Author*

To carry out this production, the company has a plant within the same factory. The floorplan of the plant is shown in the following illustration.

Figure 4 Plant Floorplan



Source and Creation: *Author*

1.5.1 Product Characteristics

Jeans made by the company have all the characteristics of normal jeans. They are characterized by being Jeans manufactured with quality raw materials, with designs according to the fashion and tastes of the customers.

The raw material for the manufacture of Jeans is imported from Peru. The threads, closures and rivets are manufactured from the same supplier in the city.

1.5.2 Sales Price

The sales price is determined by the total cost of production plus the profit margin imposed by the managers. For intermediaries this profit margin is lower than for end consumers. The profit margin that the managers generally establish is 25% of profit.

The production costs for the year 2014 are detailed below.

Table 5 Jean Production Costs for 2014

PRODUCT	COST OF PRODUCTION PER UNIT
Jeans	$13.84
Blankets	$12.37
Towels	$4.01

Source: *Author, based on information provided by the company.*

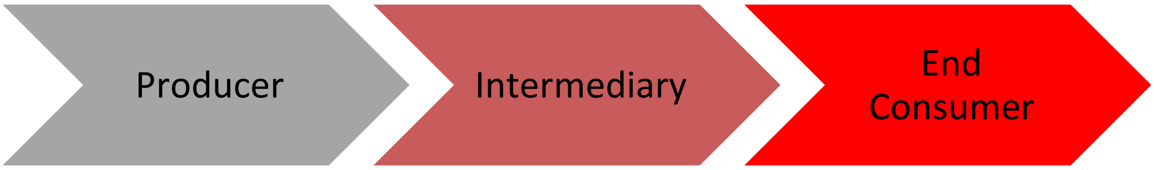
The main analysis was developed for jeans due to these ones are the most sold in Cuenca in spite of have the highest production costs of the company's products.

In the production department there is a great need for investment in technology, although at the moment most of the processes of clothing manufacture are through machines suitable for the work. There is a lack of investment in modern equipment that is more effective at cutting and creating the exclusive designs of the clothing.

1.5.3 Marketing

Regarding marketing, Jeans Text distributes its products in the local market. The marketing of these products is done through direct management. Personnel are hired exclusively for product marketing. These people are in charge of visiting potential buyers who know the quality of the product. Sales are also made to final consumers of jeans by units as shown below.

Figure 5 Marketing Process



Source and Creation: *Author*

1.6 SWOT

Jeans Tex is a company that has strengths and weaknesses and has opportunities and threats for its exposure to the international market.

Figure 6 SWOT of Jeans Text

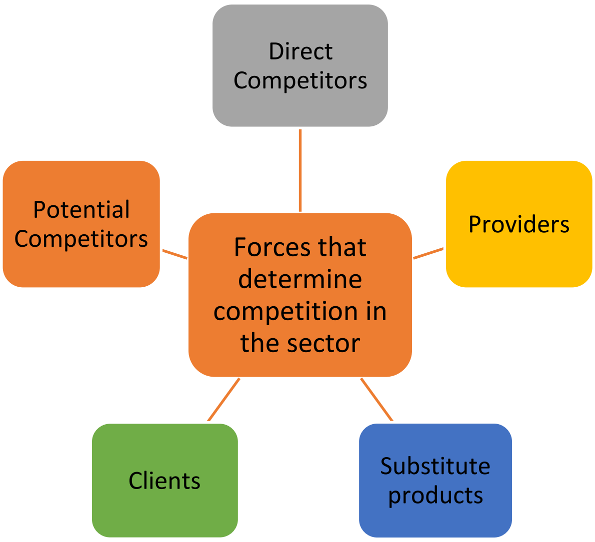
STRENGTHS	WEAKNESSES
• Local positioning • 25 years of experience in making jeans • Price of low sales • High quality product • Good experience, a credit to the company	• Scarce technological resources • There isn't adequate marketing for the product • Resistance to change • Unregistered trademark
OPPORTUNITIES	**THREATS**
• Facilities with international potential • Facilities that can obtain financing for investment	• International competition regarding quality jeans manufacture • Country risk factor, dollar appreciation, volatile economy • High competition

Source and Creation: *Author*

1.7 Forces of Porter

The five forces of Porter consist of the analysis of the structural behavior of a market. These forces allow the industry to know about the existing competition in this sector and the long term profitability it will have.

Figure 7 Forces that determine competition in the sector



Source and Creation: *Author*

For Jeans Text the analysis of each of these forces will determine the existing competition in the textile industry and the potential benefit in the sector.

- **Supplier negotiating power**

The bargaining power of suppliers depends on the characteristics of the sector. In the case of the textile sector, the existence of a multitude of suppliers causes clients to exert pressure in order to obtain interests in their favor.

Since most of the production process of Jeans is made within the factory itself, the company only has one supplier of raw material from abroad and the other necessary supplies are obtained directly from a supplier in the city.

- **Substitute Products**

Jeans have the sole function of dressing a person. There are lightweight materials, leggings and fabric pants on the market that can be used as an alternative to Jeans, but due to current fashion trends, these products are not seen by most of the population as substitutes. In this way, within the company there are brands referred to as substitute brands for Jeans.

This substitution can especially be caused by the following factors: poor product quality, products with high commercial margins, and product prices are high in relative to their quality.

Therefore, the threat of replacement is very high for Jeans Text due to the brand's short life cycle because of the existing trend of rapidly changing customer preferences. In addition to this, commercial margins are high within the textile sector.

- **Local Rivals**

Competition in the city and in the country between factories producing jeans is very high. The competition in the country is basically due to price, quality, and design.

The existence of high competition within the sector is mainly due to the ease of distribution in the industry, and the low cost of storage since these are not perishable products.

According to PROECUADOR (Institute for the promotion of exports and investments), 11.65% of Ecuador's total textile industries are concentrated in the province of Azuay. These are outstanding for the factories of ponchos, macanas, trousers blouses and embroidered sweaters. Most of Azuay's textile industries are located in the city of Cuenca, causing rivalry within that sector to be high.

In the country there are large industries that already have power over the national market. The main clothing textile industries in the country are as follows:

Table 6 Primary Textile Industries of the Country

CLOTHING
Chamber of Commerce Antonio Arte
Recreational clothing Fibran Cía. Ltda.
Empresas PINTO S.A.
Hilacril S.A.
General Ecuatorian Industry S.A. - INGESA
Industria Piolera Ponte Selva

Source: *Association of Textile Industries of Ecuador (AITE)*

These companies are well known for being registered brands and being large companies whose products are sold internally and externally.

In addition to these large industries, the domestic market has to face threats from products from foreign markets. Such is the case of the Colombian market, Panamanian and Peruvian. These countries introduce products that are recognized for their price, especially the Panamanian market. For 2010, the country imported 22.96 tons of jeans from Panama at a price of 12 dollars per unit according to Central Bank data. In the same way, 24.62 tons of Colombian pants sold in the market were imported at a price of $19 (per unit).

In this way there is a strong rivalry in the country due to the presence of products from national and international industries, which are offered at both, low and high prices and are differentiated by the quality and design of the clothing.

- **Potential Competitors**

One of the characteristics that limits competition is the high manufacturing costs and the growth rate of the sector. The industrial sector is characterized by a low growth rate.

The existence of external entry barriers imposed by the government caused a reduction in the threat of potential competitors for Jeans Text in recent years.

- **Ability to negotiate with clients**

Customers in the industrial sector are numerous and determine the success of a market. Their bargaining power is high, especially when they buy wholesale clothing and still have some bargaining power when they buy individually. These are the end consumers, so when deciding prices and the brand, they play a fundamental role through their bargaining power.

1.8 Current financial analysis of the company

All economic and financial processes are handled within the financial department of the Jeans-Text factory. It is one of the fundamental departments for the development and operation of the company.

The finance department within the business sphere is responsible for efficiently and effectively controlling financial resources. It develops and strengthens an effective system of accounting and financial controls.

1.8.1 Balance Sheet vs. Results Balance: Horizontal and Vertical Analysis

Within the horizontal analysis of the Balance Sheet we can see that the assets fell by 4.57% from the year 2013 to 2014 as can be seen in Table 7.

Table 7 Horizontal Analysis 2013-2014

JEANS TEXT CO. LTD.	
HORIZONTAL ANALYSIS OF THE BALANCE SHEET	
ASSETS	-0.045677322
LIQUID ASSETS	-0.105578599
Available	-0.198723933
Debtors	-0,393939394
Clients	-0.307692308
Advances on taxes	-0.333333333
Accounts payable	-0.470588235
Inventory	0,068134396
Finished products	0,074310171
Unfinished products	0.085406731
Raw material	0,050408865
FIXED ASSETS	0
Machinery and equipment	0
Computing eqipment	0
Vehicles	0
Depreciation	0
LIABILITIES	0,099754169
LIQUID LIABILITIES	0,099754169
Unpaid debts	0,099754169
TOTAL ASSETS	-0,065469346
CAPITAL	-0,062871795
UTILITY	-0.07188549
TOTAL LIABILITIES + TOTAL ASSESTS	-0.045677322

Source: *Author, based on information provided by Jeans Text Cía. Ltd.*

Within the asset account, inventories showed growth by 6.8% from 2013 to 2014. The accounts of the fixed assets remained constant during these two years of study. That is to say in these years the company has not invested in acquisition of new equipment or machinery for their production. The liability account for the year 2013 to 2014 had an increase of 9.97%. On the other hand, the equity account decreased by 6.5%.

Regarding the participation of each group of accounts in the balance sheet: fixed assets had a 56.74% share of total assets in 2013 and in 2014 its participation rose to 59.45%; The current assets for the year 2014 had a decrease in their participation in the group of assets, fell from 43.26% in 2013 to 40.55% in 2014 as can be seen in Table 8.

Table 8 Vertical Analysis of the General Balance of Jeans Text Co. Ltd.

JEANS TEXT CO. LTD.		
VERTICAL ANALYSIS OF THE GENERAL BALANCE		
	2013	2014
ASSETS	1	1
CURRENT ASSETS	0,432638079	0,405482093
Available	0,189829341	0,159386035
Debtors	0,053016025	0,033668826
Clients	0,020885101	0,015150972
Tax advance	0,004819639	0,003366883
Accounts receivable	0,027311286	0,015150972
Inventories	0,189792712	0,212427231
Finished products	0,030217528	0,034016794
Unfinished products	0,075488555	0,085857527
Raw material	0,084086629	0,09255291
FIXED ASSETS	0,567361921	0,594517907
Machinery and equipment	0,35344017	0,37035709
Computing equipment	0,019529658	0,020464418
Vehicles	0,240981934	0,252516198
Depreciation	0,046589841	0,048819798
LIABILITIES	0,119789388	0,138044377
CURRENT LIABILITIES	0,119789388	0,138044377
Accounts payable	0,119789388	0,138044377
ASSETS	0,880210612	0,861955623
CAPITAL	0,626553028	0,615264133
UTILITY	0,253657584	0,246691491
TOTAL LIABILITIES + ASSETS	1	1

Source: *Author, based on information provided by Jeans Text Cia. Ltd.*

As for the accounts that represent company debts, there has been constant activity for two years. The subscribed capital account represents a larger share of the company's equity. In 2013 it represents 62.65% and in 2014 it represents 61.52%.

Considering the horizontal analysis of the Results Balance shown in Table 9, it is estimated that the company's annual sales dropped from 2013 to 2014 by 1.48%.

Table 9 Horizontal Analysis of Balance Results of Jeans Text Co. Ltd.

JEANS TEXT CO. LTD.		
VERTICAL ANALYSIS OF BALANCE RESULTS		
	2013	2014
SALES	1	1
COST OF SALES	0.718743700	0.728398374
Direct manufacturing costs	0.581115191	0.604186538
Indirect manufacturing costs	0.137628508	0.124211836
SALES GROSS UTILITY	0.281256300	0.271601626
	0	0
SALES COSTS	0.119995992	0.119671132
OPERATIONAL COSTS	0.015329585	0.02108821
ADMINISTRATIVE COSTS	0.080297093	0.082046199
Work Supplies	0.008936777	0.008298947
Electricity, drinkable water, telephone	0.015131444	0.014058806
Vehicle Depreciation	0.006128076	0.006220711
Fuel	0.010662851	0.011212209
Parts	0.001909917	0.003690955
Management Expenses	0.035410063	0.03725169
Taxes, contributions, others	0.002117965	0.001312881
SALES COSTS	0.024369314	0.016536723
Promotions and Publicity	0.001572873	0.001192303
Transportation	0.022796441	0.01534442
NET INCOME	0.161260308	0.151930494

Source: *Author, based on information provided by Jeans Text Cia. Ltd.*

Cost of sales decreased by 0.16% from 2013 to 2014 due to the decrease in indirect manufacturing costs of 11.09% and an increase in direct costs of 2.42%.

The expenses of the company had a decrease. Operating expenses fell 35.52% from 2013 to 2014 and administrative expenses 0.66%. Selling expenses decreased 33.15%. The profit for the year 2013 to 2014 fell 7.18%

The participation of each of the accounts within the Results Balance can be seen in Table No. 10. The company's sales costs took up 71.87% of the total in the year 2013 and in 2014 it rose to 72.83%. The gross profit from sales for the year 2013 had a portion of 28.12% and 27.16% for the year 2013.

Table 10 Vertical Analysis of Balance Results for Jeans Text Co. Ltd

JEANS TEXT CO. LTD.		
VERTICAL ANALYSIS OF THE STATE OF RESULTS		
	2013	2014
SALES	1	1
COST OF SALES	0.718743700	0.728398374
Direct manufacturing costs	0.581115191	0.604186538
Indirect manufacturing costs	0.137628508	0.124211836
GROSS SALES UTILITY	0.281256300	0.271601626
	0	0
SALES COSTS	0.119995992	0.119671132
OPERATIONAL COSTS	0.015329585	0.02108821
ADMINSTRATIVE COSTS	0.080297093	0.082046199
Work supplies	0.008936777	0.008298947
Electricity, drinkable water, telephone	0.015131444	0.014058806
Vehicle depreciation	0.006128076	0.006220711
Fuel	0.010662851	0.011212209
Replacements	0.001909917	0.003690955
Managment costs	0.035410063	0.03725169
Taxes, donations, and others	0.002117965	0.001312881
SALES COSTS	0.024369314	0.016536723
Promotions and publicity	0.001572873	0.001192303
Transportation	0.022796441	0.01534442
NET INCOME	0.161260308	0.151930494

Source: *Author, based on information provided by Jeans Text Co. Ltd.*

The expense accounts for the years within the study had a smaller participation. Operating expenses in 2013 had a share of 1.53% and in 2014 its share was 2.10%. Administrative expenses had a share in 2013 of 8.02% and in 2014 its participation was 8.20%. Utility had a smaller share in 2014 (15.19%) compared to 2013 (16.12%).

According to the AITE, Jeans Text reports fewer sales and profits than average for clothing industries in the country. This is due to the size of the factory and to the fact that the companies mentioned above are exporters of their product in addition to their product being sold on a national level.

A financial analysis is used for the current economic-financial interpretation of a company. A financial analysis through the use of axes and indicators studies the accounting information. The analysis and interpretation of these financial indicators improves the knowledge of a company's performance. The most used financial axes are: profitability, leverage, indebtedness and liquidity. These four indicators are then obtained for the Jean-Text factory.

1.8.2 Profitability

Gross margin: measures the profit that each product sold by itself is able to generate and is defined as gross profit in sales over net sales.

GROSS MARGIN	2013		2014	
Gross sales utility	$ 27,537.81	***0.2875***	$ 26,196.52	***0.2837***
Net Sales	$ 54,789.00		$ 92,345.00	

The gross profit obtained after deducting sales costs of Jeans Text in 2013 was 28.75% and in 2014 was 28.37%.

Net margin: determines the proportion of profit generated by each product sold after discounting costs and expenses.

NET MARGIN	2013		2014	
Net Utility	$ 15,789.00	***0.1649***	$ 14,654.00	***0.1587***
Net Sales	$ 54,789.00		$ 92,345.00	

For the year 2013 and 2014 the company generated 16.49% and 15.87%, respectively, of profit, noting that despite the increase in cost of sales, sales were maintained and increased enough to assume such increases.

Return on assets: determines the company's efficiency for generating profit with the total of its available assets and is equal to net profit on total assets.

RETURN ON ASSETS	2013		2014	
Net Utility	$ 15,789.00	***0.2537***	$ 14,654.00	***0.2467***
Total Assets	$ 62,245.33		$ 59,402.13	

The return on investment in the years 2013 and 2014 was 0.25% and 0.24% respectively, resulting in a decrease of 0.01% in the last period. In this way the company has the capacity to generate profits for the total assets invested.

Return on equity: determines the efficiency of the company to generate profits with its available capital. It is equal to:

RETURNS ON ASSETS	2013			2014		
Net Utility	$	15,789.00	*0.2882*	$	14,654.00	*0.2862*
Assets	$	54,789.00		$	51,202.00	

In 2013 the investment in its own resources generated 0.29% of profit for the company and in 2014 the same proportion was generated. That is to say the capital invested in the company if it has generated profit.

1.8.3 Debt

Debt axis: measures the proportion of assets that is financed by third parties and is equal to the total liability on the total assets.

REASONS FOR DEBT	2013		2014	
Total Liability	$ 7,456.33	**0.1198**	$ 8,200.13	**0.1380**
Total Assests	$ 62,245.33		$ 59,402.13	

For the year 2013, 0.11% of the company's assets were financed by third parties and for 2014 the financing increased to 0.13%.

1.8.4 Liquidity

Liquidity Axis: measures the company's ability to pay its debts in the short term with the total assets available in the short term. The liquidity axis is measured by dividing the liquid asset by liquid liabilities.

CURRENT RATIO	2013		2014		
Current assets	$ 26,929.70	*3.6117*	$	24,086.50	*2.9373*
Current liabilities	$ 7,456.33		$	8,200.13	

For the year 2013, the company Jeans-Text had $3.61 to deal with every dollar it owes. In the year 2014 the company had less liquidity, meaning that for every dollar it owes it then had $2.94 to pay the debt.

Working Capital: measures the ability of the company to deal with its near due debts. It is equal to active liquid assets minus passive liquid assets.

WORKING CAPTIAL	2013		2014	
Current assets - current liabilities	$26929.7- $7456.33	*19,473.37*	$24086.50-$8200.13	*15886.37*

Jeans-Text, in 2013, after paying the total of its short-term obligations, had $19,473.37 remaining to meet the obligations that arise in the development and the manufacture of its products. In the year 2014 the total was $15,886.37.

Acid Test: measures the short-term debt repayment capacity (12 months) that the company has with its most liquid assets. It is obtained by dividing active assets minus inventories for passive assets.

ACID TEST	2013		2014	
Liquid Assets - Inventory	$26929.7-$11813.71	2.03	$24086.50-$12618.63	1,40
Liabilities	$ 7,456.33		$ 8,200.13	

In 2013 for every dollar the company owes, it has $2.03 to pay it and in 2014 for every dollar that the company owes it has $1.40 with which to pay. The company has the means to pay all of its short-term liabilities without selling its inventories.

FON: the Funds for Operational Needs is an indicator that allows to see the necessary funds to cover the current operations of the company. It is an indicator of investment and is the difference of the sum of stocks (raw material plus finished products plus products in process) and customers with suppliers.

$$FON = 11813.71 + 1300 - 7456.33 = 5657.38$$

Jeans - Text company needs $5657.38 to cover its investments during the production cycle.

1.8.5 Leverage

This determines the proportion of third-party participation in the company's capital and is defined by total liabilities over total equity.

LEVERAGE	2013		2014	
TOTAL LIABILITIES	$ 7,456.33	0.1361	$ 8,200.13	0.1602
TOTAL EQUITY	$ 54,789.00		$ 51,202.00	

For the year 2013 the company had a debt of 0.13%. For 2014 its debt was 0.16%. Which is to say, its level of indebtedness was not high.

CONCLUSION

Jeans-Text is a company with 25 years of experience in the manufacture of Jeans and has an international opening vision: to stand out from the competition by offering high-quality jeans, new designs, and comfortable prices especially for the lower and middle class markets. However, despite its acceptance in the market, the company lacks investment in the area of marketing and sales which leads it to limit itself in front of its competitors and, therefore, the results in their sales are smaller.

With the horizontal and vertical analysis of the financial statements, the participation of each one of the accounts that make up the balance sheet as well as the balance of results can be observed. It is also possible to measure the growth of the accounts during the period of the study. As a result, within the balance sheet liquid assets decreased by 10.55% from 2013 to 2014. Fixed asset accounts remained constant and passive assets increased by 9.98%. The participation of the main accounts (liquid assets, fixed assets and passive assets in 2014) were 40.54%, 59.45% and 13.80% respectively. In the analysis of the balance of results, it can be seen that the cost of sales represents 72% of sales in 2013, the operating expenses represent 1.53%, and the profits 16.12%. The change from 2013 to 2014 in sales is less 1.5%, meaning sales fell from 2013 to 2014 in this proportion. Selling expenses fell 1.75% and earnings for the year fell 7.19%.

The company is going through a healthy economic-financial situation despite not being financed. Its financing is 100% with its own capital. The company's investment in its own resources in the study period generated 0.29% of profit. The average of 0.12% for the company's own assets were financed by third parties during the study period, so the company's indebtedness to third parties is minimal. In short, the company's indebtedness during the year 2013-2014 was 0.14% on average.

Considering the ability to pay the company, the company has sufficient resources to meet its short-term debts, so the company for every dollar owed during the study period had an average of $ 3.27 to deal with those debts. And after meeting all of its obligations in the short term, $17,679.87 remained on average to meet the obligations that occur in the development of the manufacture of its products during the years of this study.

The current financial situation of the factory indicates that this growth can continue within the textile industry. Taking advantage of the facilities granted by the government for international startups and connections, the company can extend its line of business to the Venezuelan market, which will be analyzed in the following chapters…

CHAPTER II

MACROECONOMIC ANALYSIS OF THE TEXTILE INDUSTRY IN ECUADOR AND VENEZUELA

2.1 Background

Ecuador and Venezuela are countries located in South America and are in an economic development process. Their main economic activity is oil refining. In addition they depend on industrial activity, agriculture, and fishing.

In recent years the Ecuadorian economy has experienced a robust and continuous growth from dollarization in the year 2000. However, the recent drop in oil prices and the appreciation of the US dollar has caused the economy to go through hard times. Venezuela is suffering from the same situation and both economies are affected in the same way, but not to the same magnitude, because oil is their main economic activity.

Ecuador has experienced a growth of less than one percentage point (0.3%) in GDP and Venezuela a decrease of 3.9%. The rise in the rate of unemployment, inflation and the deficit accumulated in the balance of payments is proof of the crisis that these two economies are experiencing.

The textile industry has a very important place in the economy, and therefore has also been affected by this situation. This industry, besides contributing to the growth of the national GDP, generates labor sources either directly or indirectly. In recent years, in the textile sector, garments have become increasingly important, especially in Ecuador. T-shirts, denim clothing, underwear, savannahs, blankets, sweaters, etc. are made in Ecuador.

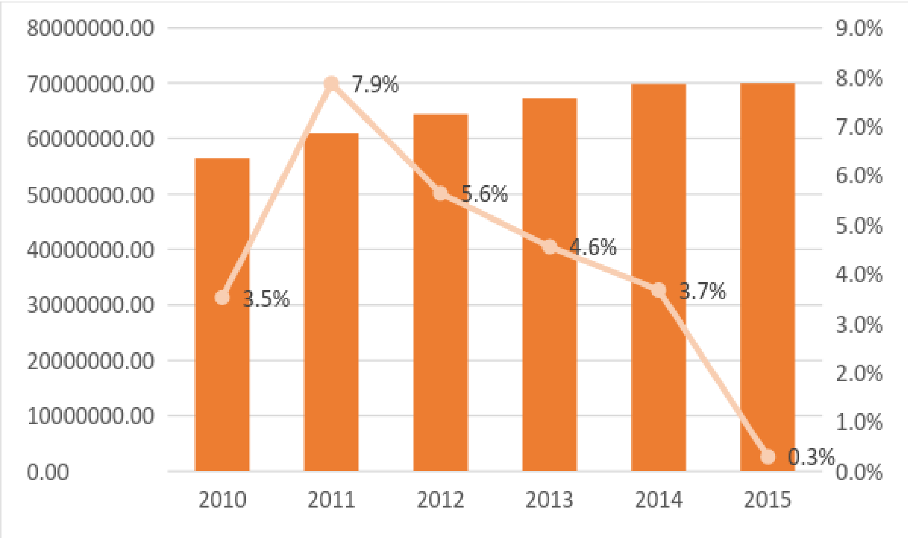
2.2 Macroeconomic Analysis of Ecuador

2.2.1 Gross Domestic Product

Gross Domestic Product (GDP) is the value of all final goods and services produced in a country during a given time. That is, the GDP, is an indicator that measures the production of goods and services of a country.

Although Ecuador has experienced a robust and continuous growth in its economy, the growth rate in the last four years has fallen considerably. Figure 8 shows the GDP and the rate of change during the 2010-2015 period

Figure 8 Gross Domestic Product Ecuador 2010-2015 and annual variation rate 2007 prices



Source: *Author, based on information taken from the ECB*

In the last five years, Ecuador has maintained a much more sustained growth trend than in previous years. In 2010 there was a 3.5% growth rate and continued growth as a result of a slight increase in exports by world economies affected by the financial crisis. In 2012, it registered the highest economic growth since 2004, 7.8%, as a consequence of an increase in oil revenues and tax collection.

In 2015, the Ecuadorian economy experienced the fall in the price of oil, their primary export, and the appreciation of the US currency that led to an economic growth of only 0.3%

2.2.2 GDP by industry

The Gross Domestic Product by Industry (ECB) reports the economic situation of the country by economic activity: agriculture, fishing, mining, industry, electricity, construction, manufacturing, commerce, services, etc.

Table 11 shows the participation by industry within the national GDP during the last five years.

Table 11 Potential participation by industry within GDP, 2010-2015. In thousands of constant dollars in 2007

INDUSTRY	Percentage Participation 2010	Percentage Participation 2011	Percentage Participation 2012	Percentage Participation 2013	Percentage Participation 2014	Percentage Participation 2015
Agriculture	7.72	7.70	7.25	7.35	7.25	7.38
Agriculture and shrimp fishing	0.46	0.51	0.52	0.55	0.56	0.64
Non-Shrimp Fishing	0.62	0.60	0.63	0.64	0.64	0.65
Petroleum and mining	10.55	10.05	9.76	10.08	10.00	9.74
Petroleum Refinery	1.59	1.63	1.69	1.07	0.60	0.64
Non-Petroleum Manufacturing	12.16	11.93	11.67	11.78	11.71	11.86
Water and elelcricity supply	1.63	1.92	2.15	2.21	2.29	2.47
Construction	8.23	8.97	9.53	9.87	10.22	10.12
Commerce	10.44	10.24	10.15	10.31	10.73	10.76
Food and lodging services	1.83	1.79	1.77	1.80	1.85	1.77
Transportation	6.57	6.42	6.45	6.55	6.70	6.79
Mail and Communications	3.24	3.37	3.47	3.52	3.68	3.60
Financial service activities	2.76	2.91	3.21	2.94	2.95	2.87
Technical, administrative, and professional activities	6.18	6.18	6.25	6.29	6.30	6.59
Teaching, Social services and health	8.50	8.24	8.34	7.93	7.78	7.76
Public administration, defense plans	5.90	6.04	6.08	6.21	6.23	6.27
Mandatory social security						
Domestic services	0.33	0.29	0.27	0.26	0.27	0.27
Other Services (*)	7.38	7.11	6.75	6.70	6.45	6.43
Total Added Gross Value	96.09	95.91	95.93	96.06	96.20	96.62
Other GDP Elements	3.91	4.09	4.07	3.94	3.80	3.38
GDP	56,481,055	60,925,064	64,362,433	67,293,225	69,766,239	69,968,813

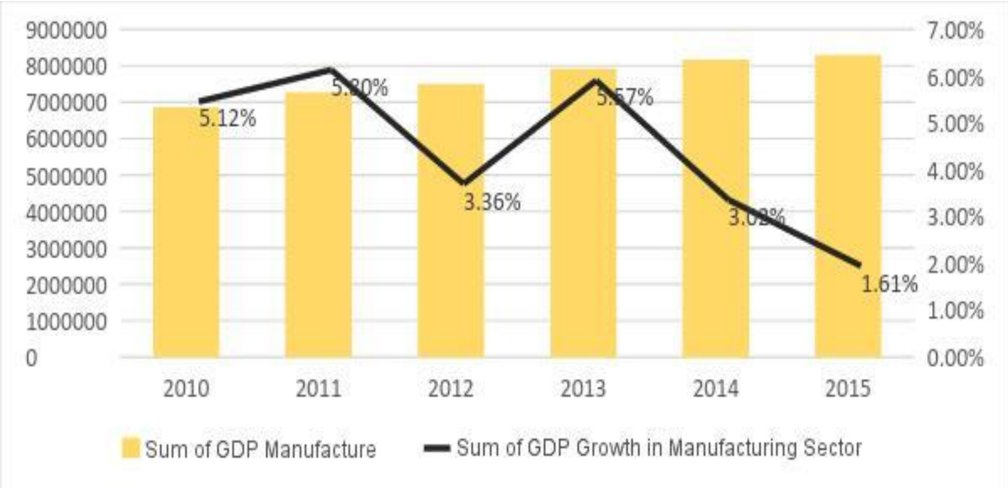
Source: *Author, based on information taken from ECB*

The manufacturing sector has the largest participation in the national GDP followed by the oil sector and the trade sector, and the sector with the lowest participation is domestic service. The participation in a five-year study of manufactures show that the average GDP is 11.85%. For its part, the trade sector has a share of 10.44% and domestic service has a 0.28% share on average.

2.2.3 Manufacturing GDP

The manufacturing industry plays an important role in an economy. Revista Ekos (2015) defines industry as the process of transforming raw materials into an end product or product that will serve as input for another productive process.

Figure 9 GDP growth in the manufacturing sector 2010-2015

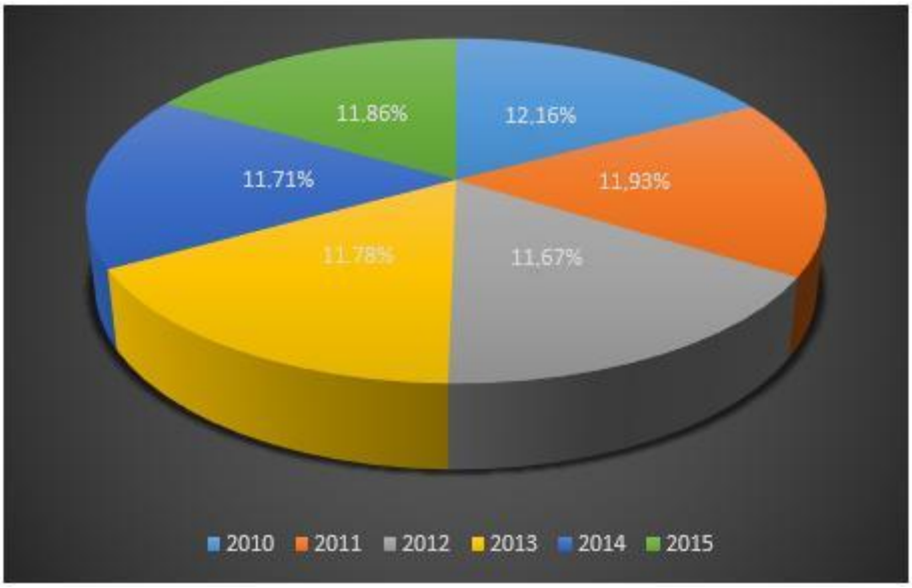


Source: *Author, based on information taken from ECB*

The manufacturing industry has presented positive growth rates in recent years. In 2013, it registered a growth of 5.57%, the highest of the considered period of time. This variation is due to greater investments in the sector, an increase in consumption and a better quality of life for the population.

However, in the year 2015 there was a growth of barely 1.61% in the sector. It was this low as a result of government measures such as restriction on imports and change in the productive matrix. The behavior of the manufacturing sector GDP matches the participation of this sector within the national GDP.

Figure 10 Participation in the manufacturing sector in the GDP 2010-2015



Source: *Author, based on information taken from ECB*

The manufacturing sector's share of GDP in 2010-2015 declined slightly. In the year 2010, the incidence within the sector was greater compared to the last two years. That is to say, during the year 2010, there was a participation of 12.16% and 11.67% respectively of the manufacturing sector in the GDP, compared to 11.71% and 11.86% of participation in 2014 and 2015 respectively.

2.3 Inflation

Inflation measures the rise in the overall level of prices of goods and services produced by an economy. It is measured by the consumer price index (CPI). The CPI is a weighted average of the price changes of a basket of representative goods and services that are consumed by households. The variation of this indicator allows calculating inflation.

The price variation can be presented on a monthly, annual and cumulative basis for the total CPI. Figure 11 and Figure 12 show the annual and monthly inflation rate of the Ecuadorian economy during the last five years.

Figure 11 Annual Inflation 2010-2015

Source: *Author, based on information taken from ECB*

Figure 12 Monthly inflation 2010-2015

Source: *Author, based on information taken from ECB*

In 2011 Ecuador experienced a generalized price increase of 5.41% compared to 2010, whose change rate was 3.33%. In 2012 the rate was 4.16%, in 2013 was 2.70% reflecting those variations slowed down. For the last few years, inflation grew in 2014 to 3.67 and in 2015 the price variation decreased 0.29 percentage points from the previous year.

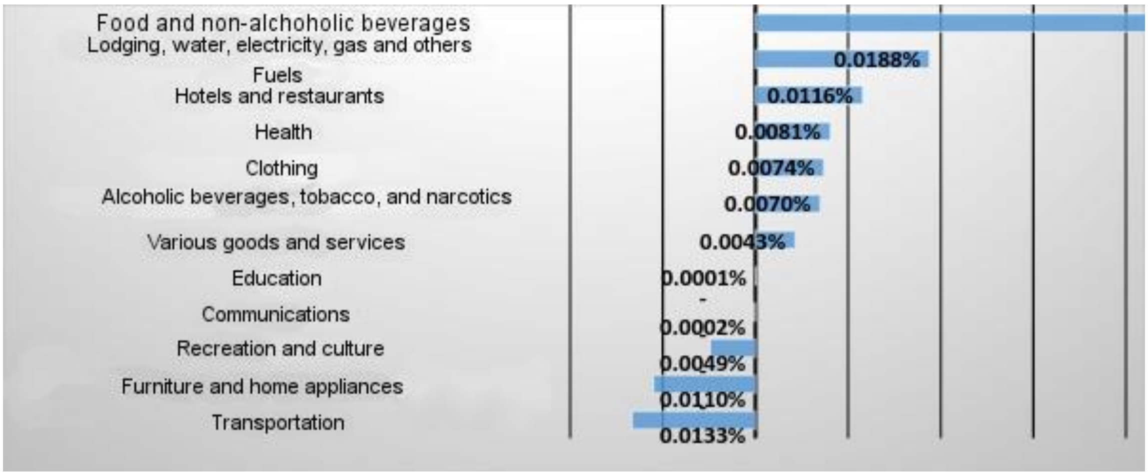
In Figure 12 the general variation of the monthly prices can be observed. In December 2015 inflation was 0.09%. This inflation was lower than the variation presented in the previous month and in December of the year 2014. In November of 2015 the inflation was 0.11% and in December of 2014 the variation was 0.11%.

2.3.1 Incidence of Clothing Inflation

As mentioned above, the CPI is calculated on the basis of a package of goods and services. This package of goods and services is classified into twelve consumption divisions:

- Food and non-alcoholic beverages
- Housing, water, electricity, gas and other fuels
- Alcoholic beverages, tobacco and drugs
- Miscellaneous goods and services
- Communications
- Education
- Furniture, home appliances and home maintenance supplies
- Clothing and footwear
- Recreation and culture
- Restaurants and hotels
- Health
- Transportation

Figure 13 Incidence of inflation by percentage and by product division, December 2015



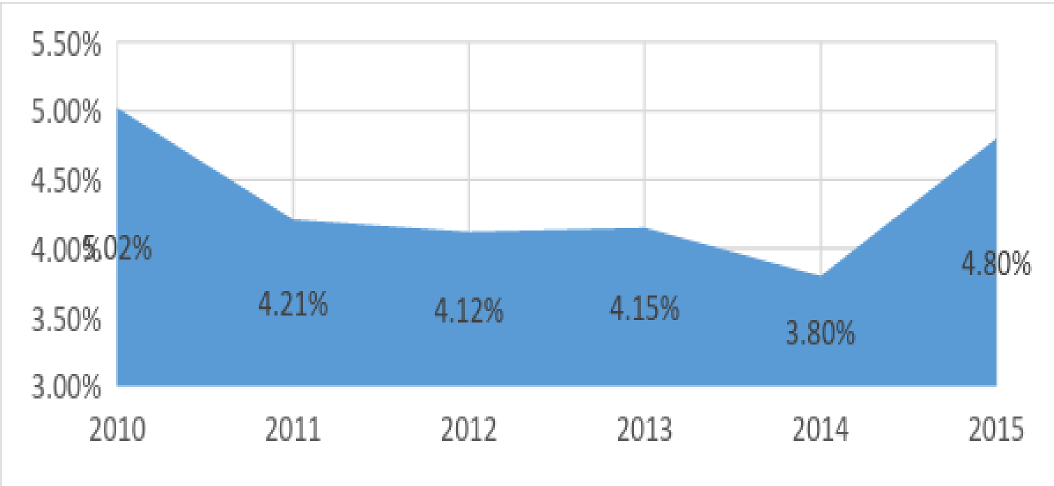
Source: *Author*, based on information taken from ECB

The products that have contributed most to the increase in the general price index are food and non-alcoholic beverages, whose incidence has been 0.0664% followed by housing, water, electricity, gas and other fuels. On the other hand, clothing and footwear have caused the price index to rise by 0.0074%.

2.4 Unemployment

As mentioned by Dornbusch, Fischer, & Startz (2004), the unemployment rate measures the proportion of the working population who have no job and are looking for one or waiting to be called back by the company in which they worked.

Figure 14 Unemployment rate 2010-2015



Source: *Author, based on information taken from the INEC.*

The unemployment since December 2010 shows a constant reduction until 2014. The unemployment rate in December 2015 increased compared to the rate of the previous year, from 3.80% in 2014 to 4.80% in the year according to surveys conducted by the Deloitte firm in 2015, a sample of 65700 workers, it was determined that 15.6% on average were dismissed and the sectors where most dismissals were made were related to oil, construction and mass consumption (El Comercio).

According to the National Institute of Statistics and Censuses, the sectors that have the highest overall employment are those presented in the Table N° 12.

Table 12 Employment by activity branch 2014-2015

Activity Branch	2014	2015
Agriculture	24.40%	25.00%
Commerce	18.90%	18.80%
Manufacturing	11.30%	10.60%
Construction	7.40%	7.30%
Transportation	5.90%	6.20%
Other	32.00%	32.10%

Source: *(National Institute of Census and Statistics)*

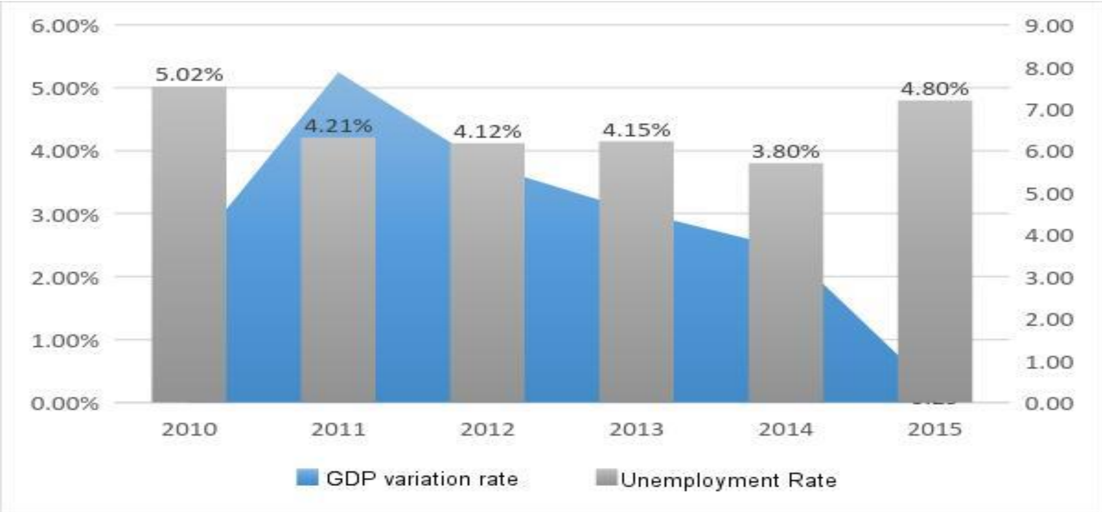
Manufacturing during 2015 made up 10.60% of employment, that is -0.70 percentage points of employment generated by the same branch in the year 2014. The economic recession in 2015 caused unemployment increasement.

2.4.1 Relationship between GDP and Unemployment

The analysis of the relationship between the unemployment rate and the growth of the economy takes place under the argument used by the economist Arthur Okunes (1962): "High growth creates an increase in the country's employment and, therefore, a decrease of the unemployment rate "(Velastegui 3).

The calculation of the Okur coefficient is outside the scope of this research; however graphically, we can observe that during the period considered, domestic production increased by 4.34% in 2011 compared to 2010 where the unemployment rate fell from 5.02% in 2010 to 4.21% in 2011. The following years presented the same behavior.

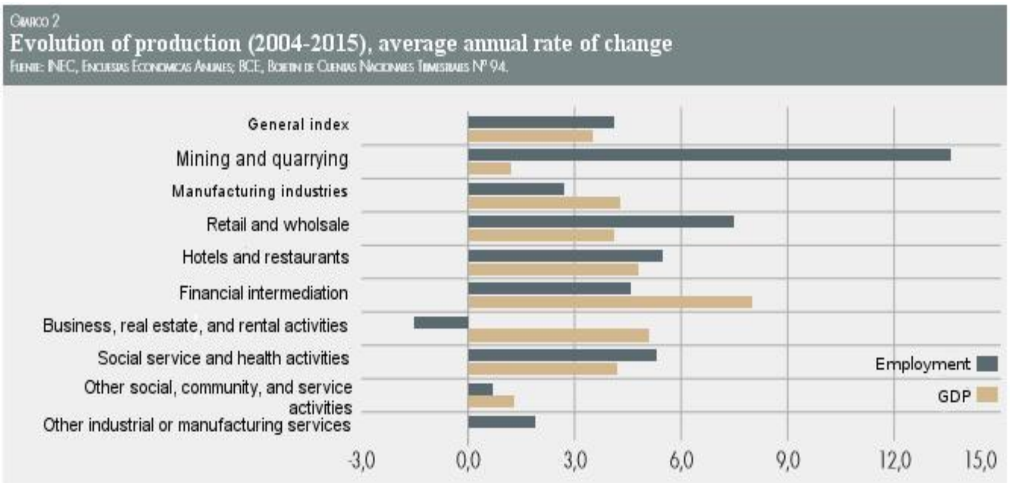
Figure 15 Relationship between GDP and unemployment 2010-2015



Source: *Author, based on information taken from ECB and INEC.*

It is important to note that the year 2015 is a year when the economy was going through an economic crisis. In that year, it was only 0.29 percentage points higher than the previous year, and the unemployment rate for the year 2015 increased by 1 percentage point in relation to 2014. This is the highest rate of unemployment in the study period. In this way it is concluded that as production increases, the unemployment rate decreases due to the fact that companies demand more labor to cope with the increase in production.

Figure 16 Evolution of the production and employment (2004-2015), rate of average annual variation



Source: Gestion Magazine

According to Figure No. 16, the demand for employment in the manufacturing sector during the 11 years observed was less than the high value generated by the industry. The sectors that experienced the opposite situation of the manufacturing industry were those of mining and quarrying, wholesale and retail trade, hotels and restaurants. These industries registered a higher demand for employment than the added value generated. High oil prices and the expansion of formal trade in recent years may explain this situation.

2.5 BALANCE OF PAYMENTS

The International Monetary Fund (IMF) (2009) defines the balance of payments as a state that summarizes economic transactions between residents and non-residents over a given period. Economic transactions include the payment of imports and exports of goods, services, financial capital and financial transfers.

The accounts that the balance of payments includes are:

- Current account
- Capital and financial account
- Financial account
- Account of errors and omissions

The current account of the BP is composed of the trade balance, income balance, balance of current transfers and balance of services. The first three balances are analyzed below

2.5.1 Trade Balance

The trade balance is the register of goods that Ecuador sells to other countries and the goods it buys to satisfy domestic demand. It is equal to the difference between total exports and imports.

The factors influencing the consumption decisions of internal or external products can be:

- Price of goods
- Exchange rate

- Consumer Income
- Transportation Costs
- Government policy on foreign trade

Exportable products are classified as oil and non-oil and are expressed in FOB (Free On Board) value. Oil exports refer to the sale of oil and all its derivatives and non-oil exports correspond to the sale of products other than oil and petroleum products.

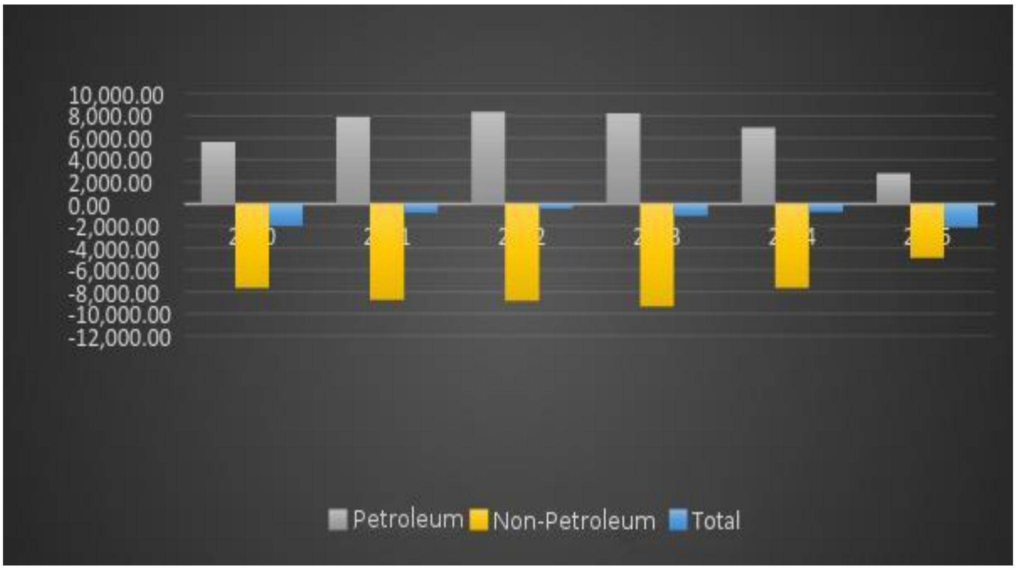
Imports, like exports, are classified in oil and non-oil imports and are expressed in FOB value. That is, the value of the goods that legally enter the country with the costs and freight up to the border of the exporting country.

Oil imports refer to imports of fuels and lubricants and includes adjustments for imports of goods made by service companies in the oil area. On the other hand, non-oil imports are goods other than fuels and lubricants made in a period.

The difference between exports and imports, both oil and non-oil, gives us the credit of the trade balance, which can be a surplus when exports are higher than imports and a deficit when exports are lower than imports.

In recent years, Ecuador has presented a negative balance in the total trade balance. Figure 17 shows the total trade balance for the years 2010-2015.

Figure 17 Total trade balance 2010-2015



Source: *Author,based on information taken from ECB.*

The oil trade balance, unlike the non-oil trade balance, shows a surplus during all the years examined. In 2012, this balance reached its peak, but decreased in the following two years, basically this decrease was due to a decrease of the oil price from $ 98.14 in 2012 to $ 95.63 in 2013 and $ 84.16 in the 2014. The year 2015 registered a balance of -60.14% that the balance presented in 2014, December 2015 closed with an oil price of $ 37.04 which explains the magnitude of the negative balance presented this year.

On the other hand, the non-oil trade balance had an accumulated deficit. In the year 2015, a deficit of -36.04% was registered in relation to that presented in 2014, from USD -7,640.10 million in 2014 to USD -4,886.40 in 2015. Between 2013 and 2014 there was a decrease in the deficit of the non-oil balance due to an increase in exports and an import restriction.

2.5.1.1 Exports

Table 13 shows the share of the products in the total exports made during the year 2014-2015.

Table 13 Exports by product 2014-2015

Year	2014		2015	
	FOB Value	% Participation	FOB Value	% Participation
Petroleum	13,275,495.24	51.61	6,660,051.76	36.33
Derivitives	259,475.48	1.01	304,816.57	1.66
Crude Oil	13,016,019.76	50.60	6,355,235.19	34.67
Non-Oil	12,448,937.26	48.39	11,670,555.27	63.67
Traditional	6,259,845.74	24.33	6,277,431.78	34.25
Tuna	99,398.86	0.39	87,843.06	0.48
Banana	2,577,187.72	10.02	2,808,119.34	15.32
Cocoa	576,389.90	2.24	692,849.22	3.78
Coffee	24,250.19	0.09	18,085.27	0.10
Processed Coffee	154,044.59	0.60	128,430.36	0.70
Shrimp	2,513,463.54	9.77	2,279,595.46	12.44
Processed Cocoa	133,761.66	0.52	119,544.54	0.65
Fish	181,349.28	0.70	142,964.53	0.78
Non-Traditional	6,189,091.52	24.06	5,393,123.49	29.42
Abacá	12,988.20	0.05	14,764.95	0.08
Natural Flowers	918,241.99	3.57	819,939.11	4.47
Fish meal	104,289.79	0.41	111,573.70	0.61
Wood	230,084.09	0.89	263,451.63	1.44
Metal manufactuer	518,508.93	2.02	509,854.58	2.78
Textile manufacture	132,600.71	0.52	101,177.38	0.55
Other	2,804,367.49	10.90	2,390,894.64	13.04
Other sea products	1,295,845.14	5.04	991,379.01	5.41
Chemicals and pharmaceuticals	155,572.40	0.60	170,315.41	0.93
Hats	16,592.78	0.06	19,773.08	0.11
Total	25,724,432.50		18,330,607.03	

Source: *Author, based on information taken from ECB*

The share of oil exports in 2014 was 51.61% and for the year 2015 the share fell to

36.33% which can be explained by the drop in oil prices. Among the non-oil exports, the largest percentage during 2014 was traditional exports with a share of 24.06% in 2014. By 2015 exports of traditional products have a larger share than non-traditional exports. The share of the former was 34.25%, compared to 29.42% corresponding to the share of non-traditional exports.

2.5.1.2 Imports

Table 14 shows the imports per product made during 2014-2015 and the share of each of these over total imports.

Table 14 Imports per product 2014 - 2015

	2014		2015	
	Value FOB	% Participation	Value FOB	% Participation
Capital Goods	6684602.09	25.30	5342415.44	26.13
Agriculture	122114.7	0.46	136622.95	0.67
Transportation equipment	1839574.13	6.96	1393313.09	6.81
Industrial	4722913.26	17.88	3812479.4	18.65
Consumer goods	5187958.19	19.64	4218741.91	20.63
Non-Perishables	2099419.53	7.95	1504079.9	7.36
Perishables	2890795.56	10.94	2592006.59	12.68
Postal and International Traffic	197743.1	0.75	122655.42	0.60
Fuel and lubricant	6417322.45	24.29	3950104.89	19.32
Fuel and lubricants	6417322.45	24.29	3950104.89	19.32
Various	55627.11	0.21	57540.59	0.28
Various	55627.11	0.21	57540.59	0.28
Raw material	8075973.94	30.57	6877995.08	33.64
Agriculture	1254987.76	4.75	1119722.34	5.48
Industrial	5792439.07	21.92	5147664.94	25.18
Construction materials	1028547.11	3.89	610607.8	2.99
General total	26421483.8		20446797.9	

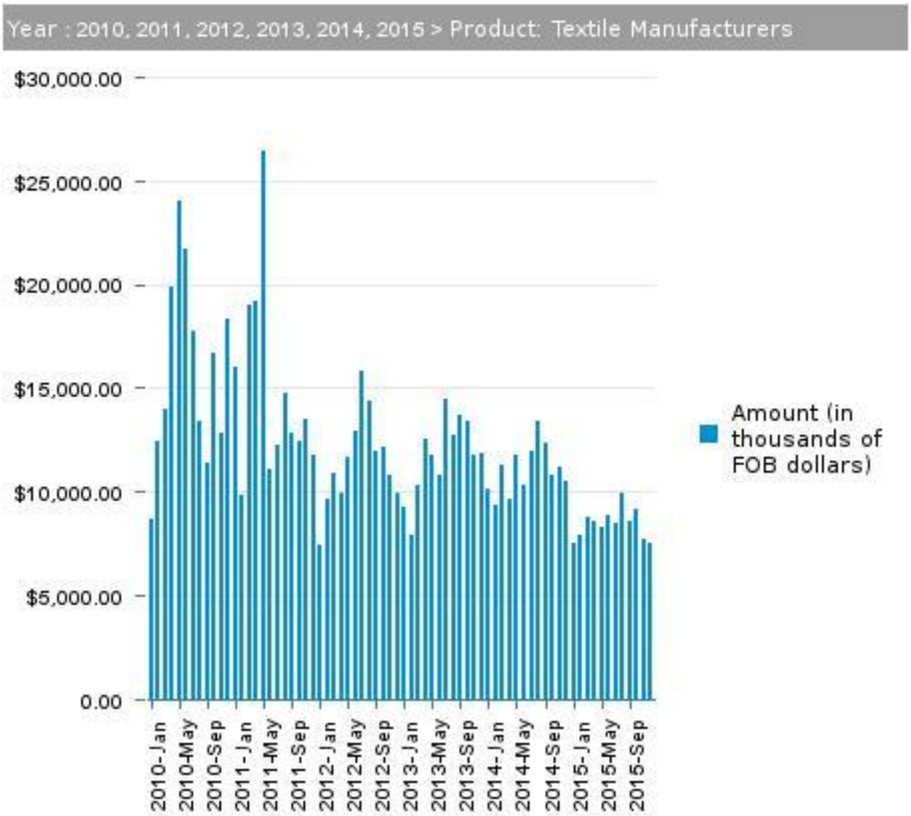
Source: *Author, based on information taken from ECB*

Oil imports (fuels and lubricants) in 2014 had a 24.29% share of total imports. In the year 2015 this share fell by 4.97%. Among the non-oil imports, the products with the largest share of imports were industrial raw materials, with a share of 21.92% in 2014 and 25.18% in 2015.

2.5.1.3 Exports and imports of manufactured textiles

The exports of textile manufactures registered in the trade balance can be see in Figure N° 18.

Figure 18 Exports of textile manufacture 2010-2015 in thousand of dollars FOB

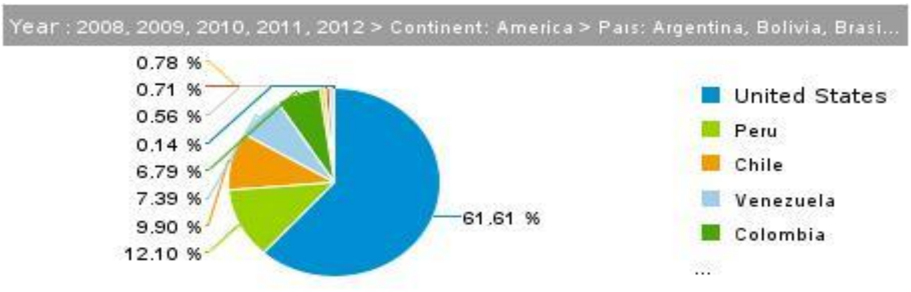


Source: *Central Bank of Ecuador*

Author: *Macroeconomic information system SP*

The export of manufacturing products during the years 2012 - 2015 has fallen considerably. By December 2015, exports fell by 23.70% in relation to exports in 2014, whose exports were -5.43% in 2013. In 2013, exports grew 2.04% in relation to exports in 2012. In the year 2012 exports were -23.25% of those recorded in 2011.

Figure 19 Quantity of exports by country 2008-2012



Source: Central Bank of Ecuador

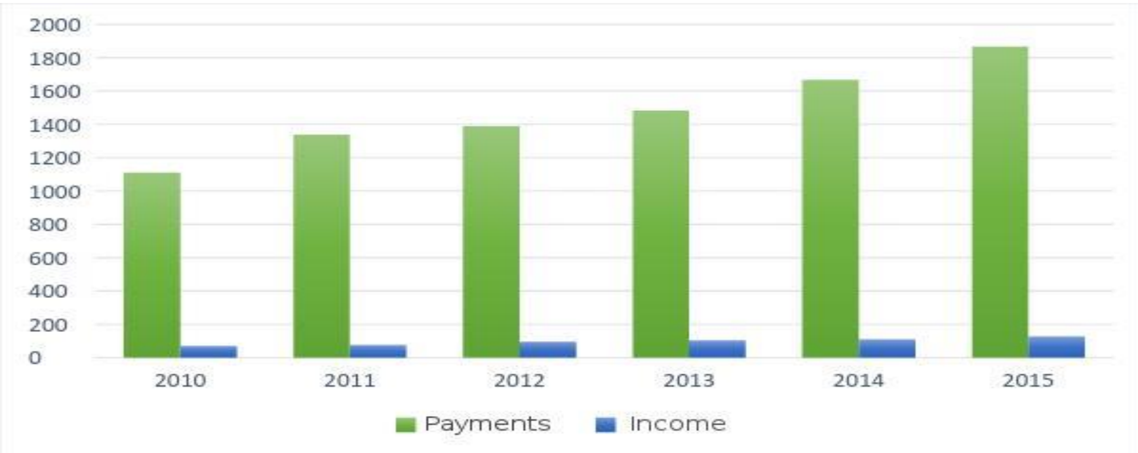
Author:** Macroeconomic information system SP.**

During 2008-2012 Ecuador had greater exports to Peru with an average of 12.10%. Exports to Venezuela were 7.39% on average, which is the third destination country of Ecuadorian exports. The second place takes Chile with an average of 9.90%.

2.5.2 Income Balance

Is the record of income and payments made for the income generated by work and capital made outside the country or by residents in the country. In Figure No. 20 the income balance generated during the 2010-2015 period can be seen.

Figure 20 Total Income Balance 2010-2015. In millons of dollars



***Source:** Author, based on information taken from ECB*

The income balance shows a deficit accumulated during the years of study. The income during the period considered experienced a slight growth. In 2015 the income was USD 1867,379,976.00 million dollars, that is 12% more than the amount paid in

2014. The variation for the year 2014 was 12.47% more than the year 2013.

For its part, the income received as well as the amount paid has experienced growth. The greatest growth occurred during the years 2012 and 2015, having variation rates of 25.79% and 14.98% respectively. The income received for the year 2012 was USD 95.97570566 million dollars and for 2015 was USD 126.4084464 million dollars. In conclusion, Ecuador has to pay a much higher amount than the one it receives.

2.5.3 Balance of account transfers

This refers to the registry of operations of transfer of ownership of solid or financial resources that is made free of charge to residents and non-residents. It consists of workers' remittances, other account transfers and transfers sent.

In this research it was of interest to know the balance of workers' remittances. This balance records the current transactions carried out by persons dwelling in a new economy and who remain in it for more than one year. Table 15 shows the current transfers of remittances sent and received during the period 2010-2015 in thousands of dollars.

Table 15 Balance of remittances 2010-2015

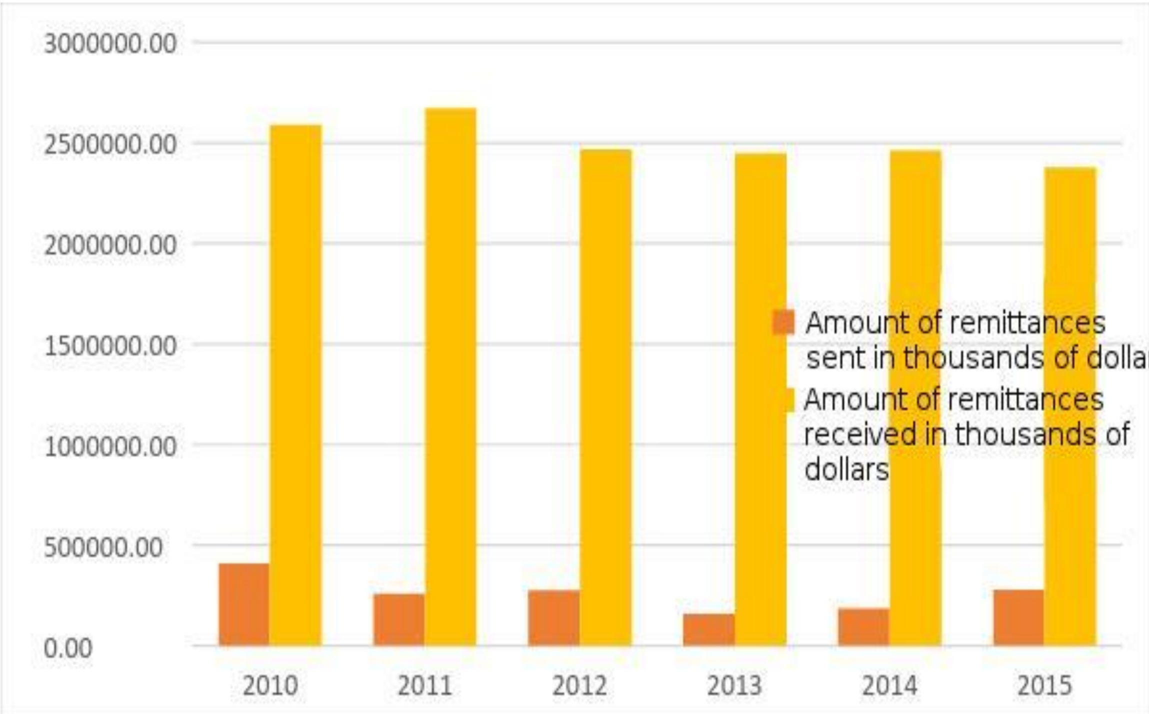
YEAR	REMITTANCES SENT			REMITTANCES RECIEVED		
	Sum in Thousands of Dollars	Sum in No. of transactions	Sum of Average (Thousands of dollard per transaction)	Sum in Thousands of Dollars	Sum in No. OF TRANSACTIONS	Sum of Average (Thousands of dollars per Transaction)
2010	410,336.87	1,940,951	367.30	2,591,484.42	7,783,168	185.36
2011	258,633.78	701,192	323.43	2,672,430.51	7,849,793	237.73
2012	275,656.38	702,134	324.50	2,466,893.62	7,548,682	272.22
2013	157,476.39	516,515	50.35	2,449,517.23	7,509,412	283.45
2014	184,488.63	606,267	54.85	2,461,742.15	7,878,972	269.44
2015	278,076.94	894,034	49.66	2,377,818.89	7,913,529	266.29

Source: *Author, based on information taken from ECB*

In 2010, the highest number of funds sent during the study period was recorded. In this year, 63.87% more were sent than the year 2011. For the years 2014-2015, the number of returns sent tended to increase after the decrease in 2013 and 2011. In 2015, 47.46% more than the year 2014 which was 17.38% more than the year 2013.

The largest number of remittances received occurred during the year 2015. This year the number of remittances increased by 0.44% in relation to the remittances received during 2014, a year that saw a growth of 4.92% in remittances after the slight fall of the year 2013. In Figure 21 the amount of remittances in thousands of dollars sent and received during the period of studies can be seen.

Figure 21 Total Remittance Balance 2010-2015



Source: Author, based on information taken from the ECB

The amount of remittances received was greater than the number of remittances sent. In 2011, the country received USD 2,672,430.51 thousand in remittances and transferred an amount of USD 258,633.78 thousand under this concept. In the year 2015, USD 2,377,818.89 thousand dollars for remittances were processed compared to USD 278,076.94 thousand dollars for the same concept.

2.6. Political Environment

The import substitution model governs Ecuador's trade policy. With this policy, the government seeks to promote exports and prevent foreign competition. The Constitution of the Republic of Ecuador, 2008 in its Art 306 of the Seventh Section on Commercial Policy states the following: the State will promote environmentally responsible exports, with preference given to those that generate greater employment and added value, particularly the exports of small and medium-sized producers and the artisan sector. In addition, the State will provide the necessary imports for completing goals and discouraging those that adversely affect the national production, population, and nature.

As an instrument of trade policy, the government seeks to reduce imports through increased tariffs. The creation of tariffs and the establishment of their levels are the exclusive responsibility of the Executive Function (Art 305, Constitution of the Republic of Ecuador, 2008)

2.6.1 Objectives of the Commercial Policy

Article 304 of the Constitution of Ecuador (2008) states that trade policy shall have the following objectives:

- Develop, strengthen and revitalize internal markets based on the strategic objectives established in the National Development Plan.
- Regulate, promote and implement the corresponding actions to promote the country's strategic insertion in the world economy.
- Strengthen the national productive apparatus and production.
- Contribute to ensure food and energy sovereignty and reduce internal inequalities.
- Promote the development of scale economies and fair trade.
- Avoid monopolistic and oligopolistic practices, particularly in the private sector, and others that affect the functioning of markets.

2.6.2 Guidelines for the elaboration of Commercial Policy

According to Art 3 of (Law on Foreign Trade and Investments (LEXI)), the State will design and execute its policies in this matter according to the following guidelines:

- Ensure freedom for the improvement of export and import activities and to facilitate the management of economic agents in this field.
- To promote the internationalization of the Ecuadorian economy in order to achieve a growing and sustained pace of development.
- Take advantage of the opportunities offered by the world trade in technology and services for the benefit of the country's exportable production.
- Promote the modernization and efficiency of local production, in order to adequately meet domestic and external demand, to improve its international competitiveness and meet consumer needs, taking into account the requirements of world trade with regard to the preservation of the environment.
- Promote the growth and diversification of the exportation of goods, services, and technology.
- Ensure that national production competes in the international arena according to fair and equitable free trade practices. To this end, the National Government shall adopt concrete measures to ensure an effective defense, in accordance with the international trade agreements and agreements to which the country is a signatory.
- Promote the strengthening and development of mechanisms to promote exports and investments.
- Promote, through stimulus and incentives, direct national and foreign investment, integration processes and bilateral and multilateral trade agreements that expand investment and facilitate the country's external transactions.
- Prevent and counteract the negative effects of domestic production on unfair trade practices.

2.7. Legal regulation as it affects the Industry

2.7.1 Foreign Trade and Investment Law

The Foreign Trade and Investment Law (LEXIS) was approved by the National Congress on May 22, 1997. The aim of this law is to regulate and promote foreign trade and direct investment, increase the competitiveness of the national economy, promote the efficient use of the productive resources of the Country and promote its sustainable development and integrate the Ecuadorian economy with the international economy and contribute to the improvement of the population's well-being (Art 1, LEXIS).

In Article 10 and Art. 18, the Foreign Trade and Investment Law establishes the creation of the Foreign Trade and Investment Council, COMEXI and the Corporation for the Promotion of Exports and Investments, CORPEL. The latter as a private legal entity.

COMEXI's main function is to determine the foreign trade policies of goods, services and manufactures, taking into account the international commitments assumed by the country in trade matters and in accordance with the country's macroeconomic and development program.

The areas over which COMEXI has responsibility are:

- Tariff Policy
- International Negotiations
- Policies for the development of special regimes
- Measures to counter unfair trade
- Define policies aimed at achieving greater competitiveness of national production
- Approve the export promotion plan

On the other hand, CORPEL's main function is to execute the non-financial promotion of exports and to guide and direct the promotion of direct investment in the country.

2.7.2 Organic Code of Production

On December 29, 2010, under the Official Register 359, the Organic Code of Production, Trade and Investment (COPCI) was created. This code covers the legal framework that will govern the performance of productive activities whose benefits will be seen in the medium and long term.

The scope of these regulations will cover the whole productive process from the use of factors of production, productive transformation, distribution and trade, consumption, the use of positive externalities and policies that discourage negative externalities. It will also boost all productive activity at the national level, at all levels of development and the factors of the popular and solidarity economy, as well as the production of goods and services made by the various production organizations in the economy, recognized in the Constitution of the Republic. Likewise, it will be governed by the principles that allow international strategic articulation, through the commercial policy, including its instruments of application and those that facilitate foreign trade, through a transparent and efficient modern customs regime (Organic Code of Production, Trade and Investment).

Based on Art 71 of the COPCI, the body that will approve the national public policies in matters of trade policy will be a collective body of intersectoral public organizations, responsible for the regulation of all matters and processes related to this matter, which will be called Committee Of Foreign Trade (COMEX).

The Committee of Foreign Trade has as its duties and obligations:

- To formulate and approve the policies and strategies, general and sectorial, in matters of foreign trade, marketing and promotion of exports, as well as to assign to the executing agencies.
- Create, modify or suppress customs tariffs.
- To regulate, facilitate or restrict the export, import, circulation and transit of non-national or nationalized goods in the cases provided for in this code and in international agreements duly ratified by the Ecuadorian State.
- Issue the rules on registrations, authorizations, prior control documents, licenses and import and export procedures, other than customs, general and sectoral, including requirements that must be met, other than customs formalities.
- Approve and publish the nomenclature for the classification and description of the imported and exported goods.
- Promote environmentally responsible exports and imports, among other goals.

2.7.3 COPCI Incentives.

This code establishes three types of tax incentives.

1. General: Application for investments in any part of the national territory. They consist of the following:

- The progressive reduction of three percentage points in income tax
- Those that are established for economic zones of special development, as long as these zones meet the criteria for their formation.
- Additional deductions for the calculation of income tax, as mechanisms to encourage productivity improvement, innovation and eco-efficient production; d. The benefits for the opening of the social capital of the companies in favor of its workers.
- The facilities of payment in taxes to foreign trade
- The deduction for the calculation of the income tax of the additional compensation for the payment of the living wage
- Exoneration of the tax on the exit of foreign exchange for external financing operations.
- The exemption of the advance to income tax for five years for any new investment.
- The reform to the calculation of the advance of income taxes.

2. "Sectors" and "for equitable regional development": For sectors contributing to change in the energy matrix, strategic importation substitution, export promotion and rural development throughout the country, and urban areas as specified in the second reformatory provision (2.2), the total exemption from income tax for five years is recognized for new investments in these sectors.

The sectors to which the Production Code applies incentives are:

- Fresh, frozen and processed foods
- Agroforestry chain and processed products
- Metalworking
- Petrochemistry
- Pharmaceutical

- Tourism
- Bioenergy
- Foreign Trade Logistics Services
- Biotechnology and Software applied to fertilizers
- Agrochemicals, pesticides and fungicides
- Soaps, detergents and cosmetics
- Ceramics, tiles and floors
- Manufacture of electronic equipment in general
- Clothing and Textile
- Footwear and leather
- Home appliances

3. For depressed areas: In addition to the fact that these investments will benefit from the general and sector incentives described above, in these areas the new investment will be prioritized by granting a tax benefit by additional deduction of 100% of the cost of hiring new workers for five years.

2.7.4. Tariff and non-tariff measures to regulate foreign trade.

1. **Tariff Measures:** Tariff rates may be expressed in mechanisms such as percentage terms of the customs value of the goods (Ad valorem), in monetary terms per unit of measure (specific), or as a combination of both (mixed). Other units agreed upon in international trade agreements duly ratified by Ecuador will also be recognized (Art 76).

Tariffs may be adopted in different ways:

- **Fixed tariffs:** When a single tariff is established for a subheading of the customs and foreign trade nomenclature.
- **Contingent Tariffs:** when a tariff level is established for a certain quantity or value of imported or exported goods, and a tariff different from imports or exports in excess of that amount.

It will also recognize other units that are considered in international commercial treaties ratified by Ecuador. The national tariffs must respect the commitments that

Ecuador acquires in the different ratified international treaties, without prejudice to the right to apply safeguards or commercial defense measures that exceed the established customs tariffs (Art 77).

2 Foreign Trade Non-Tariff Measures: Article 78 of this Code provides that the Foreign Trade Committee may establish non-tariff regulation measures for the import and export of goods in the following cases:

- When necessary to guarantee the exercise of a fundamental right recognized by the Constitution of the Republic.
- In order to comply with the provisions of international treaties or agreements to which the Ecuadorian State is a party.
- To protect life, health, safety of people and national security.
- To ensure the preservation of the environment, biodiversity and animal and plant health.
- When it is necessary to impose measures to respond to restrictions on Ecuadorian exports, applied unilaterally and unjustifiably by other countries, in accordance with the rules and procedures established in the respective international trade agreements and the provisions established by the governing body on foreign trade.
- When measures are required on a temporary basis to correct imbalances in the balance of payments.
- To prevent illicit trafficking in narcotic and psychotropic substances.
- In order to achieve compliance with laws and regulations compatible with international agreements, in matters such as customs controls, intellectual property rights, consumer rights, quality control or the commercialization of products for international trade, among others.

On the other hand, Art 79 states that in addition to the anticipated cases, it will be possible to establish non-tariff exportation control and restriction measures in the following cases:

- In order to avoid shortages of food products or other essential items for the country, as well as to control the price adjustment for this type of product.
- To ensure the supply of raw materials to domestic producers, in

implementation of a government plan for industrial development.

- To protect non-renewable natural resources of the country; to protect the national heritage of cultural, artistic, historical or archaeological value.
- In other cases established by the authorized body in this matter, as it is convenient to the commercial and economic policies of Ecuador, as established in duly ratified international agreements.

2.7.5 Increasing and Promoting Exports

The State shall promote export-oriented production and promote them without prejudice to those mentioned in other legal norms or government programs through the following general and direct-applied mechanisms:

- Access to tariff preference programs, or other benefits arising from mutually beneficial trade agreements for signatory countries, whether regional, bilateral or multilateral, for products or services that meet the applicable origin requirements, or that receive these benefits.
- Right to total or partial conditional repayment of taxes paid for the importation of inputs and raw materials incorporated into products to be exported, in accordance with the provisions of this Code.
- Right to benefit from special customs regimes, with suspension of payment of tariffs and taxes on imports and applicable taxes, of goods destined for export, in accordance with the provisions of Book V of this Code.
- Financial assistance or facilitation provided for in the general or sectoral programs to be established in accordance with the national development program
- Assistance in areas of information, training, external promotion, market development, formation of consortia or unions of exporters and other actions in the field of export promotion, driven by the national government.
- Right to access the incentives for productive investment provided for in this Code and other relevant standards (Art 93).

Article 95 of the Organic Production Standard establishes the creation of the body in charge of non-financial export promotion, the Institute for the Promotion of Foreign Exports and Investments. The objectives of this institute are:

- To achieve an adequate promotion of the exportable supply of goods and services of Ecuador, consolidate the current exports and promote the deconcentration and diversification of exporters, products and markets.

- Achieve the diversification and empowerment of the exportable supply through an investment that generates productive chain and technological innovation.

- Achieve an adequate export culture, with emphasis on new foreign trade players.

- To achieve the strategic insertion in the international trade of all national products, with special emphasis on the goods and services offered by small and medium enterprises, and the elements of the popular and solidarity economy.

2.7.6 Customs Tax Obligation

Articles 107, 109, 110, 111 of Chapter II of the Organic Code of Production establish the areas of customs tax liability.

The customs tax obligation is the personal legal bond between the State and the people that operate in the international traffic of goods, by virtue of which, they are subject to the customs authority, to the provision of the respective taxes upon verification of the generating fact and to the fulfillment of other formal duties (Art 107).

2.7.6.1 Event generator of customs tax obligations

The event generator of customs tax obligation is the entry of foreign goods or the exit of goods from the customs territory under the control of the competent customs authority.

Despite all this, there is no customs tax obligation if goods are subject to customs control through an international customs transit under the regulations applicable to each case, or those entering the territory. As part of an international traffic in goods, to a foreign territory, including the transhipment regime. Neither does the customs tax obligation occur, although the obligation to be subject to customs controls is necessary in relation to arriving goods this is the case unless the person who has the right to dispose of said goods has expressed through the respective customs declaration their intention to bring them into the territory customs office (Article 109).

2.7.6.2The taxes on foreign trade are:

- Customs duties
- The taxes established in organic and ordinary laws, whose event generation are related to the entry or exit of goods
- Fees for customs services (Art 108).

2.7.6.3 Base tax

The basis of assessment of customs duties is the customs value of imported goods. The customs value of the goods will be the transaction value of the goods plus the costs of transportation and insurance, as determined by the provisions governing the customs valuation. The cost of insurance will be part of the customs value, but the insurance policy will not be a mandatory support document required by the customs declaration.

When the basis of assessment of customs duties can not be determined according to the transaction value of the imported goods, it shall be determined in accordance with the secondary methods of valuation provided for in the rules governing the customs value of goods.

For the calculation of the taxable amount, the values expressed in foreign currency will be converted to the currency of legal use at the exchange rate prevailing on the date of submission of the customs declaration (Art 110).

2.7.6.4 Subject to the customs tax obligation.

Taxable entities and taxpayers are subject to the tax liability:

- The active subject of the customs tax obligation is the State, through the National Customs Service of Ecuador.
- The passive subject of the customs tax obligation are those who must satisfy the respective tax as taxpayer or responsible entities.

The natural or legal entity who carries out exports or imports must register with the National Customs Service of Ecuador, in accordance with the provisions issued for that purpose by the Director or the Director General.

In imports, the taxpayer is the owner or consignee of the goods, and in exports the taxpayer is the consignor (Art 111).

2.7.7 Customs declaration and supporting documents

The customs declaration will be presented electronically and physically in the cases determined by the General Directorate of the National Customs Service of Ecuador. This transmission together with supporting documents and accompanying documents, must be processed through the computer system of the National Customs Service of Ecuador in the pre-established formats (Art 67).

Support documents: The support documents will form the basis of the information of the Customs Declaration to any regime. These original documents, whether in physical or electronic form, must rest in the file of the declarant or his Customs Agent at the time of the presentation or transmission of the Customs Declaration, and shall be under his responsibility as determined in the law 73,

The supporting documents are as follows:

- Transport document: this constitutes the instrument recognized by customs that credits the property of the goods. This may be endorsed until before the transmission or presentation of the customs declaration for consumption as appropriate. The endorsement of the transport document implies the endorsement of the other accompanying documents, except for those of a very personal nature, such as the authorizations of National Council of Narcotics Substance and Drugs (CONSEP), and the Ministry of Defense, among others.
- Commercial invoices or documents proving a commercial transaction: The commercial invoice is for supporting customs and demonstrating the value of commercial transactions for the import or export of the goods. Therefore, it must be an original document, even if it is digital, definitive, issued by the seller of the imported or exported goods, and contain the information

provided in the relevant regulations and their data can be checked by the customs administration. Their acceptance will be subject to the valuation rules and other related to customs control.

- Certificate of origin: this is the document that allows the release of taxes to foreign trade in corresponding cases under the protection of international conventions or treaties and supranational standards. Its format and the information are contained in this document and will be given according to the regulations of the authorized agencies and recognized in the respective agreements and documents that these are the General Directorate of the National Customs Service of Ecuador or the competent foreign trade regulatory body deems necessary for the control of the operation and verification of compliance with the corresponding regulations, and provided that they are not accompanying documents.

2.7.8 Customs procedures

These are the treatments applicable to the goods, requested by the declarant, according to the customs legislation in force.

2.7.8.1 Export Regime

Definitive export: this is the customs regime that allows the final release of goods in free circulation outside the customs territory of the community or a special economic development zone located within the Ecuadorian customs territory, subject to the provisions established in this Code and other applicable rules (Art 154).

2.7.9 Textile labeling requirements

Textile labeling must include at least the following information:

- Composition of Textile Materials
- Care and Conservation Instructions
- Identification of Manufacturer and / or Importer
- Country of origin
- Size or dimensions
- Name and percentage content of materials

The labels must indicate the generic name of the textile materials and the percentage of them that are present in the product - with the exception of accessories - in a percentage equal to or greater than 5% of the total mass.

The indication must be made in descending order of mass composition and use the generic name of the textile material. Those textile materials which individually do not exceed 5% of the total mass of the product may be designated by the phrases "other fibers" or "other fibers", even if together they exceed that percentage.

2.7.9.1 Tolerances of fibers contents in the confections

A garment may be described as "100% pure" or "complete" if it is composed of the same textile material in its entirety. In this case, a tolerance of 2% is permissible. In garments composed of two or more textile materials with stakes greater than 5%, a tolerance of +/- 3% by mass is allowed for each material separately.

2.7.9.2 Care and maintenance instructions

Care and conservation instructions should be included through a key, standard symbols or both.

2.7.9.3 Manufacturer and / or importer identification

The labeling must include the name or business name, as applicable, of the manufacturer and / or importer, including tax identification or other records of the same nature that are required in the country of destination. The inclusion of trademarks and logos does not replace the identification of the manufacturer and / or importer required by this Article.

2.8 Macroeconomic analysis of Venezuela

2.8.1 GDP

The Venezuelan economy in recent years has experienced a recession, after economic growth during the first four years of the study period. Figure 22 shows the economic behavior of the Venezuelan economy during the period 2010-2014.

Figure 22 Gross Domestic Product of Venezuela and rate of change 2010 - 2014

Source: *Author, based on information taken from the BCV*

In 2014, the Venezuelan economy decreased by -3.9% from 62,233,885 million bolívares in 2013 to 59,810,257 million bolívares in 2014. During the year 2013 the economy grew just 1.3%, that is 4.3% less than the growth experienced in 2012.

Table 16 shows the composition of GDP by economic activity: Petroleras and No Petrolera. The group of non-oil activities is composed of mining, manufacturing, electricity and water, construction, trade and repair services, transportation and storage, communications, financial institutions and insurance, real estate business and rental services, etc.

Table 16 GDP by economic activity Venezuela 2010-2015, in millions of bolivars

TYPE OF ECONOMIC ACTIVITY	% Participation 2010	% Participation 2011	% Participation 2012	% Participation 2013	% Participation 2014	% Participación 2015
Consolidated	**55,807,510**	**58,138,269**	**61,409,103**	**62,233,885**	**59,810,257**	**41,404,278**
Petroleum activity	11.74%	11.34%	10.88%	10.83%	10.80%	11.75%
Non-Petroleum activity	77.28%	77.50%	77.59%	77.96%	78.58%	78.18%
Mining	0.47%	0.48%	0.43%	0.33%	0.32%	0.32%
Manufacturing	14.51%	14.46%	13.93%	13.71%	13.23%	13.38%
Electricity and Water	2.26%	2.27%	2.24%	2.28%	2.35%	2.49%
Construction	7.20%	7.24%	7.99%	7.70%	7.45%	5.99%
Repairs business and services	9.40%	9.61%	9.93%	10.13%	9.39%	8.71%
Transportation and storage	3.48%	3.53%	3.56%	3.40%	3.28%	3.19%
Communications	6.38%	6.57%	6.65%	6.99%	7.60%	Área d
Financial institutions and insurance	4.07%	4.37%	5.52%	6.63%	7.78%	7.57%
Real estate and rental companies	9.83%	9.77%	9.64%	9.74%	9.97%	10.44%
Social and personal community non-profit services	5.81%	5.90%	6.00%	6.19%	6.47%	6.41%
General government production services	12.18%	12.34%	12.28%	12.50%	13.20%	13.41%
Remainder 1/	6.20%	5.87%	5.73%	5.68%	5.63%	5.12%
Subtracted: Sifmi 2/	4.50%	4.90%	6.31%	7.32%	8.09%	7.42%
Net taxes on products	10.98%	11.16%	11.53%	11.21%	10.63%	10.07%

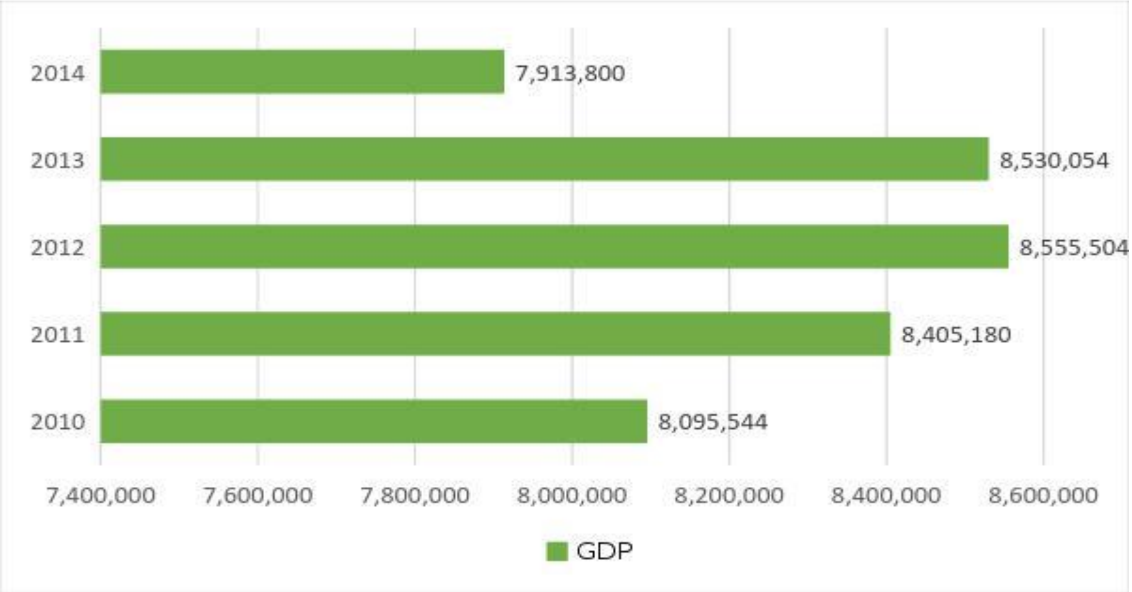
Source: *Author, based on information taken from BCV*

Regarding the year 2014, the economic activity that had the largest share of GDP is manufacturing. Its share of GDP is 13.23% followed by production of General Government services with a participation of 13.20%. Mining activity is the one with the lowest participation in GDP in 2014. Its contribution is only 0.32% in GDP. [1]

The participation of the manufacturing sector within the GDP during the period 2010-2014 can be visualized in Figure N° 23.

[1] The corresponding information for the year 2015 is available in the Central Bank of Venezuela only until the third quarter of 2015 and is not considered in this research.

Figure 23 Participation of manufacturers within the GDP of Venezuela 2010-2014



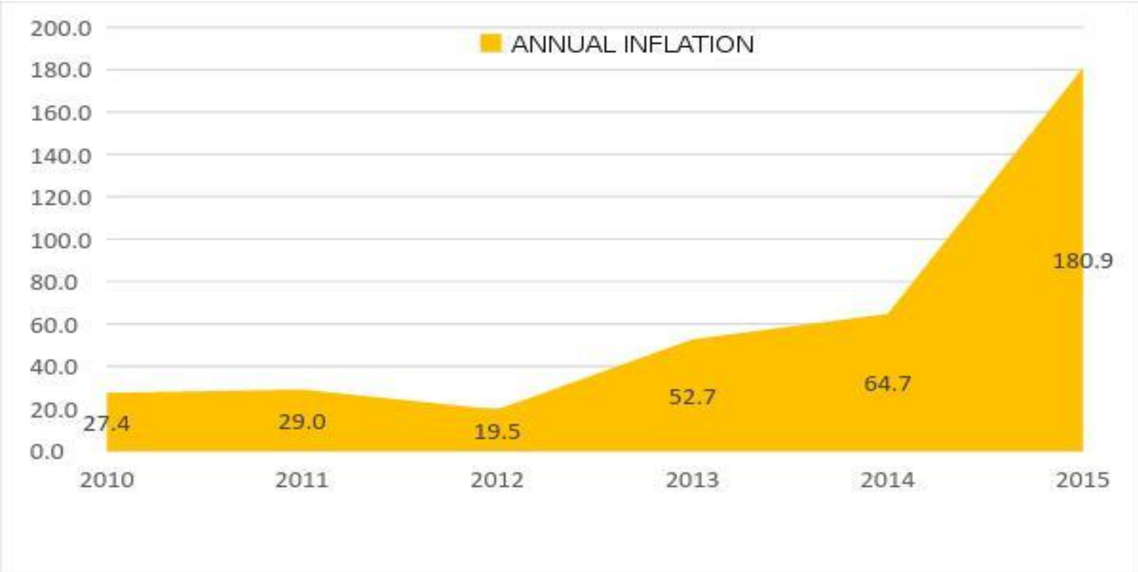
Source: *Author, based on information taken from BCV*

In 2012 there was the largest share of manufactures in the GDP, with a share of 14.51% of total GDP, followed by 2013 whose share was barely 0.05 percentage points. The year 2014, on the contrary, is the year that had the least participation, although it does not differ much from the other years. This year's share of manufacturing fell to 13.23% of GDP.

2.8.2 Inflation

Venezuela's inflation in the last year has been ranked as the highest inflation rate in the world. The inflation rate and its evolution in the last five years are presented in Figure 24.

Figure 24 Annual inflation in Venezuela 2010-2015



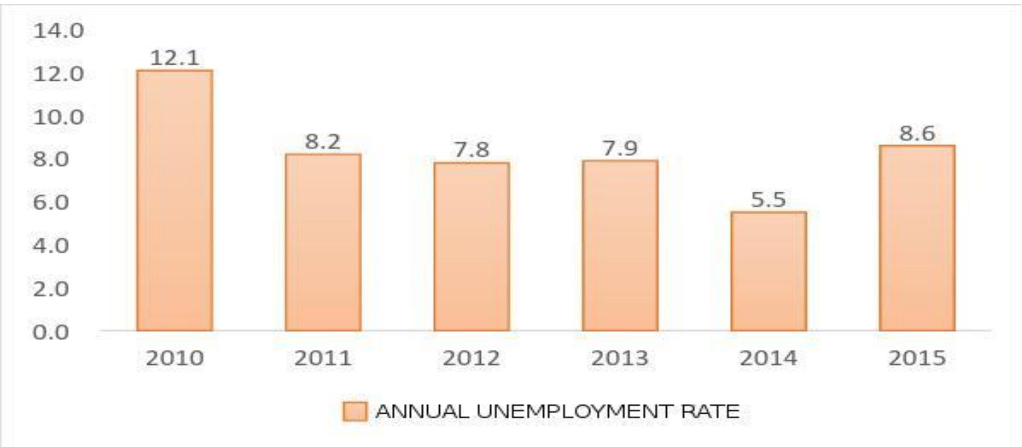
Source: *Author, based on information taken from the BCV*

The year with the lowest inflation was 2012, at 19.5%. By 2015, inflation reached 180.9 percentage points, the highest recorded in the Venezuelan economy. This situation can be explained by the fall in the price of oil in 2015, since 90% of its exports are represented by oil.

2.8.3 Unemployment

The unemployment rate in Venezuela, presented in the last year was higher than the rate presented in 2014 as can be seen in Figure 25.

Figure 25 Annual Unemployment Rate of Venezuela 2010-2015



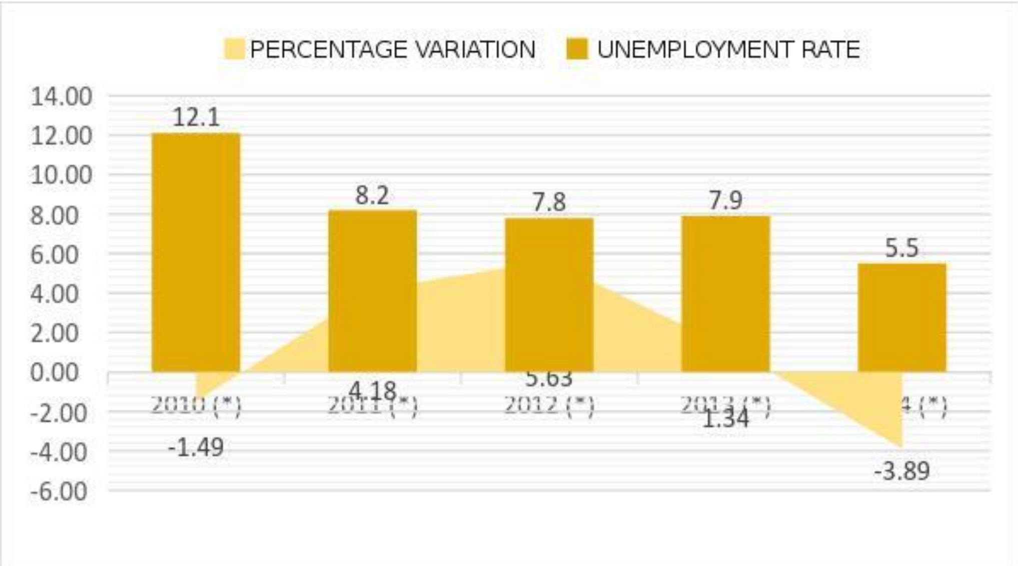
Source: *Author, based on information taken from INE*

Although the unemployment rate from 2014 to 2015 increased by 3.1 percentage points, this is not the highest rate recorded in the study period. In 2010 there was a 12.1% unemployment rate in the Venezuelan economy.

2.8.3.1 Relationship between unemployment and GDP

In the same way that the analysis was carried out for the Ecuadorian economy, between the unemployment rate and the rate of variation of the GDP, the same analysis was done for the Venezuelan economy.

Figure 26 Relationship between unemployment and GDP



Source: *Author*

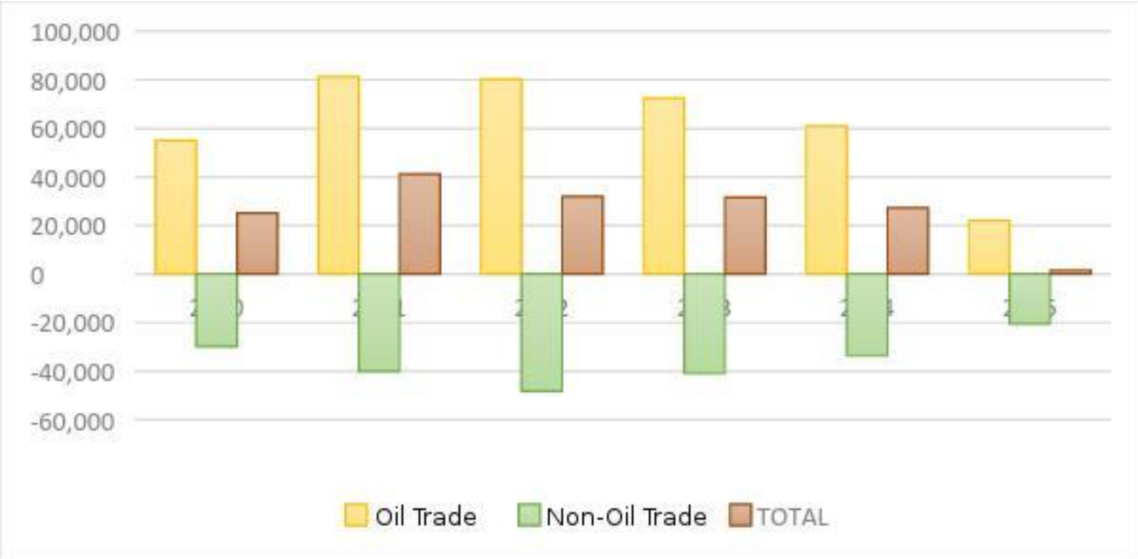
The relationship between these two indicators is similar to that presented in the case of Ecuador. In 2010, when the economy showed a decrease of 1.48%, the unemployment rate was 12.10%. The reverse trend of 2010 can be seen in the next two years. In 2013, when growth was 1.34%, the unemployment rate increased by 0.01 percentage points. On the other hand, in 2015, when the economy grew by -3.89%, the unemployment rate fell to 5.5%.

2.8.4 Balance of payments

2.8.4.1 Balance of Goods

The balance of trade in Venezuela during the last five years shows a favorable balance. Figure 27 shows the trade balance of oil and non-oil goods.

Figure 27 Total Trade Balance 2010-2015



Source: *Author, based on information taken from BCV*

Petroleum merchandise for the year 2015 shows a balance in favor. The final petroleum balance was US $22.017 million bolivars this is greater than the amount registered in the year 2014 that registered a balance of US $60.9 billion bolivars.

On the other hand the non-petroleum goods present an opposing balance. During the year 2015 the balance of these goods was US $-20.46 which is lower than the balance presented in 2014, this balance was US $-33.69 million bolivars.

2.8.4.2 Balance of Income

This balance, unlike the balance of income, during the period of study, presented a deficit. Table 17 shows the income balance of Venezuela.

Table 17 Venezuela Balance of Income Total 2010-2015 in millons of dollars

YEAR	2010	2011	2012	2013	2014	2015
Balance for rent	(6,208)	(9,079)	(11,099)	(8,707)	(8,375)	(4,778)
Employee compensation	(20)	(22)	(20)	(24)	(27)	(20)
Balance on investments	(6,188)	(9,057)	(11,079)	(8,683)	(8,348)	(4,758)
Direct investment	(3,756)	(5,027)	(5,415)	(2,761)	(2,226)	(403)
Portfolio investment	(2,373)	(3,180)	(4,266)	(4,584)	(4,564)	(3,230)
Other investments	(59)	(850)	(1,398)	(1,338)	(1,558)	(1,125)

Source: *Author, based on information taken from the BCV*

In 2012 there was the largest deficit in the income balance. In this year, the deficit was US $-11.09 million bolivars. However, during the following years this deficit has been steadily decreasing until reaching a balance against US $-4.77 million of bolivars in 2015.

2.8.5 Political Framework of Venezuela

The Constitution of the Bolivarian Republic of Venezuela in its Article 301 determines that the State reserves the use of trade policy to defend the economic activities of national public and private companies. No more beneficial regimes than those established for nationals may be granted to persons, enterprises or foreign bodies. Foreign investment is subject to the same conditions as national investment.

By constitutional mandate, Venezuela's trade policy is aimed at achieving greater diversification of exportable supply and seeking access to new international markets.

In this way, Venezuela's commercial policy has as its main objective the strengthening of its economy in the international framework through the identification and exploitation of new markets for non-traditional Venezuelan products; The increase of strategic associations in the petroleum sector to achieve an increase in the value added of exports; And support to the Organization of Petroleum Exporters (OPEC).

In recent years in the area of trade policy, Venezuela has succeeded in subscribing or perfecting various international legal instruments, which constitute the legal framework to regulate trade, all under the principles and foundations governing the multilateral trading system institutionalized by the WTO.

In addition, Venezuela has an active participation in different trade negotiation processes, either as a block of integration or as an autonomous country, among which includes the Free Trade Area of the Americas (FTAA), the Andean Community - Mercosur, the European Union. As a country Venezuela unilaterally handles its trade relations with tertiary countries in Asia, Africa, Europe, etc., also within the framework of the G-15 and the G-77.

2.8.6 Legal Framework of Venezuela

The Ministry of Finance is responsible for organizing the control, inspection and safeguard services of the Customs Administration. The Ministry of Finance also has the power to create propose and dictate customs rules, including those relating to tariffs, the customs value of the goods, the releases and exemptions from tariff levies, the application of importation restrictions and the carrying out of customs operations in general. (SICE)

2.8.6.1 Resolution on the labeling of clothing.

According to Art. 2 of Ministry of Finance Resolution No. 1182 and Ministry of Production and Trade No. 440, by labeling it is understood as marking, label or printed label, fabric or stamping, that present inscriptions or motifs with country marks manufacturing, name or business name or logo of the producer or manufacturer, constituent material, size, among other things. In addition, the country of manufacture is the country in which the goods have been manufactured.

All apparel (textile) that is marketed in the national territory (Venezuelan) must have a label containing in the Spanish language the following information:

- Name, designation or business name of the national manufacturer or importer.
- Commercial brand.
- The label "Made in Venezuela" or in the country of manufacture, in case of being imported.

- Size of the clothing (textile).
- Information on the composition of the fiber or material used in the manufacture of the clothing (textile).
- Instructions on the care of the clothing (textile).
- The Tax Information Registration Number (RIF) of the manufacturer or importer.
- The registration number established in Article 13 of this resolution (Art 3).

The manufacturer or importer must state on the label the percentage composition, relative to the mass, of the different fibers that make up the product in order of the predominance of that percentage, up to one hundred percent (100%), according to The following indications:

- The name of the fibers, are those names established in the Customs Tariff.
- Any fiber that is present in the clothing (textile), must be called by its generic name.

When textiles, garments or accessories have been made or made up of waste, leftovers, different batches, textile by-products, which are unknown or whose origin can not be proved, the percentage of fibers involved should be indicated, or in its absence with the key "... (percentage) of regenerated fibers"

When using regenerated fibers or mixtures of these fibers with other virgin or regenerated fibers, the percentages and generic names of each of the fibers that integrate the products should be noted with the words "regenerated" after the name of the fiber.

"Virgin or new" can only be used when all the textile fibers are new or virgin.

The name of any animal can not be used when referring to the fibers that integrate the textile unless the fiber or the textile is made with the hair detached from the skin of the animal in question. Any mixture of words that imply or hint at the existence of components derived from the skin or the hair or product of any animal should not be used.

A tolerance of 3% is allowed for the composition of the materials, except in the case where expressions such as "100%, Pure ..." or "All ..." are used when referring to the materials of the product. This tolerance must be considered on the mass of each fiber or material and not on the total mass of the product.

The size or measures of clothing (textiles) must be expressed in Spanish without detriment to any other language, in accordance with the provisions of the Metrology Law and the Venezuelan Standard COVENIN 288-93 "International System of IS units and Recommendations For the Use of its Multiples and Other Units" Art. 8.

Labeling must be carried out in the fabrication or production process of the clothing (textile) by direct printing or permanently bonded labeling (sewing or thermosetting), except in the case of products in which the affixing of the label in a form may impair the use or aesthetics thereof or cause loss of value, such as pantyhose, stockings, socks (Art 4).

2.8.6.2 Requirements for manufacturing or importing clothing

According to Art. 11, any national manufacturer or importer of clothing (textile) must be registered in the Mandatory Register of National Manufacturers and Importers that for this purpose will carry the National Autonomous Service of Standardization, Quality, Metrology and Technical Regulations (SENCAMER).

For the purposes of registration in the aforementioned registry, the interested party must submit together with the application form, original and copy of the following documents (Art 12):

- Acts or constitutive documents and bylaws of the company with its last modification, duly registered.
- Identity Card of the partners or legal representative, if applicable.
- An authenticated or registered document that accredits legal representation.
- Proof of the Fiscal Information Registry (RIF).
- Notarized affidavit of the national manufacturer or importer stating that the clothing (textile) to be marketed in the country complies with that established in the Joint Resolution of the Ministry of Finance No. 1182 and Ministry of Production and Trade No. 440.
- List of types of clothing (textile) to be marketed, with indication of the manufacturer.
- In the case of importers, they must present a certificate issued by the

manufacturer, certifying the country of manufacture.

- Models of labels to be placed on clothing (textile) which must comply with the above.

The Mandatory Registry of National Manufacturers and Importers of Clothing (textile) will operate under the supervision and control of the National Autonomous Service of Standardization, Quality, Metrology and Technical Regulations, SENCAMER, which may make periodic visits to industries, factories, companies Importers or commercial establishments (Art 14).

2.8.6.3 Tariff Items of Textile Manufactures

Article 8 of Decree No. 3679 of the Bolivarian Republic of Venezuela establishes that the importation of goods from the Republics of Bolivia, Colombia and Ecuador, member countries of the Andean Community, will be freed from the taxes established in the customs tariff.

They may enjoy the preferential tariff regime granted by the Bolivarian Republic of Venezuela under treaties, agreements or international conventions, goods that are covered by a Certificate of Origin issued in accordance with the rules that have been agreed for that respective instrument, provided that it expressly manifests the willingness to avail itself of such treatment at the time of the declaration. Art 9.

For the declaration of the goods in customs, the tariff classification will be adjusted in a whole to the order foreseen in the Organic Law of Customs, its regulations, in this decree and its modifications; and will consist mainly of the following:

- The numerical code shall be composed of eight (8) or ten (10) digits, depending on whether it is NANDINA sub-heading or national sub-heading. The two (2) first digits identify the chapter having four (4) digits is called start with six (6) subheadings of the harmonized system with eight (8) digits form the NANDINA sub-item and with ten (10) digits the national sub-heading, and will be the one indicated in the first column (1).
- No merchandise may be identified in the tariff without reference to the eight (8) or ten (10) digits of the numerical code, as appropriate
- The tariff description of goods identifies the text of the heading and subheading, as appropriate, and shall be that indicated in column (2).

- The tariff: it may be ad valorem, specific, or mixed and will be indicated in column (3).

Without prejudice to other formalities and legal requirements, the legal regime applicable to the importation and transit of goods shall be in accordance with the following codification (Art 12):

- Prohibited Imports
- Imports Reserved for the National Executive
- Permit from the Ministry of Health and Social Development
- Permission of the Ministry of Light Industries and Commerce
- Certificate of Sanitation from the Country of Origin
- Health Permit of the Ministry of Agriculture and Land
- Permission from the Ministry of Defense
- Importation Licenses administered by the Ministry of Food
- Importation Licenses administered by the Ministry of Light Industries and Commerce
- Permit from the Ministry of Environment and Natural Resources
- Permission from the Ministry of Energy and Petroleum
- Health Registry issued by the Ministry of Health and Social Development

For the purposes of Resolution No. 1182 of the Ministry of Finance and of the Ministry of Production and Trade No. 440, tariff headings identifying clothing (textiles) are those contained in Chapter 61 and 62 of the Customs Tariff.

2.9 Microeconomic analysis of the manufacturing industry

2.9.1 General aspects of the textile sector

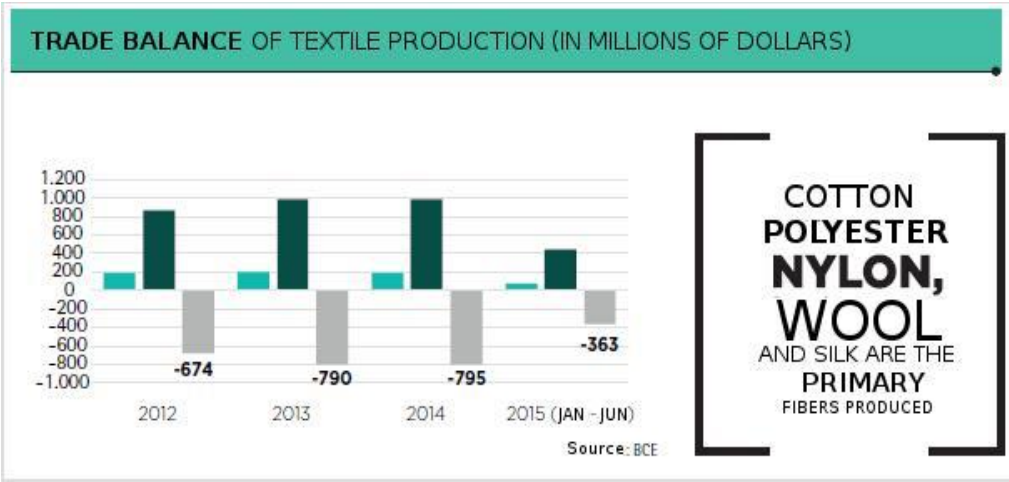
"*The textile industry has a carries a lot of weight in the economy. Dresses are staple goods and mass consumption like food, but also luxury goods with high added value*". (Tejeduria)

In Ecuador, according to the Association of Textile Industries of Ecuador, this industry generates about 50,000 direct jobs and more than 200,000 indirect jobs. (Ekosnegocios Magazine)

The share of the textile sector in the manufacturing industry in the year 2014 was

7.24%, while the share in the national GDP was 0.9%.

Figure 28 Trade balance of textile production (in millions of dollars)



Source: (Ekos Magazine)

Figure 28 presents the evolution of the textile trade balance during the years 2012, 2013, 2014 and until the third quarter of 2015. The textile sector has experienced a deficit accumulated in its trade balance. There is a deficit of more than 670 million during the three years considered.

2.9.2 Main textile companies in Ecuador and Venezuela

Both Ecuador and Venezuela have large, small, and medium enterprises dedicated to the manufacture of clothing. Experience, quality and prices are important when a consumer is deciding on a purchase.

National companies have to face international competition which occurs mostly because of their positioning in the market, due to the quality and price of the product.

To position the factory Jeans Text Co. Ltd. within the Venezuelan market it is important to make a comparative analysis of the main financial results of both national and Venezuelan companies, to have an estimate on the kind of competition that Jeans Text Co. Ltd. would have to face.

In Ecuador, according to Gestión magazine (2016), the main textile manufacturing companies are those shown in Table 18. The net margin indicator will be used to compare these companies with Jeans Text Cía. Ltda.

Table 18 Main Textile Companies in Ecuador

FACTORY NAME	Net Margin
Jeans Text Cía. Ltda.	15.87%
Fabrilfame S.A.	1.24%
Confecciones Recreativas Fibran Co. Ltd.	9.04%
Royaltex S.A	20.22%
Hilacril S.A	0.69%
Mohatexport S.A	0.13%

***Source:** Magazine Gestion*

***Author:** Author*

The companies mentioned in Table 18 are known for being large companies whose products supply both the domestic market and the international market.

Comparing the net margin between these companies, it can be seen that the company that generates the most profit after deducting costs and expenses is Royaltex S.A, followed by Fibran Lia Recreational Clothing Ltda., are the most significant. On average, the net margin generated by this group of companies is 6.36% which is 9.61 percentage points less than that generated by Jeans Text Co. Ltd.

The previous situation can be justified by high costs and expenses since by comparing their levels of sales, each of these companies generate sales higher than the factory under study, on average is 136.40% plus the volume of sales among the five companies considered as well as Jeans Text Co. Ltd.

In Venezuela, the available information and research related to textile manufacturing is scarce, which means that the financial information of the main textile industries is outside the scope of this thesis. However, Table No. 19 presents the five Venezuelan companies engaged in textile manufacturing, which according to years of experience gives indications of a good position in the Venezuelan market.

Table 19 Main Venezuelan textile manufacturing companies

FACTORY NAME
Inversiones Curcio, C.A.
Maiker y Gimi - Clothing Factory
Gud Seier, C.A.
Inversiones Samer
Confecciones Code Blue, C.A.

Source: *Author, based on information taken from* *http://www.venezuelasite.com/portal/36/573/578/579/*

2.9.3 Exchange rate

The exchange rate is an indicator that expresses the number of currencies needed to exchange one currency for another.

Venezuela currently has three exchange rates for the dollar, these exchange rates cover all the demand for foreign exchange required by the country.

The three types of exchange currently in use in the Venezuelan are show in Table 20.

Table 20 Exchange Rates Venezuela 2015

Name	Type of Change
Official Dollar	6.30 Bs./DIV
Sicad Dollar	13.5 Bs./DIV
Simadi	202.94 Bs./DIV

Source: *Author*

The exchange rates presented in Table 20 are those that govern the Venezuelan economy. Each of these indicators is governed by a specific Venezuelan framework.

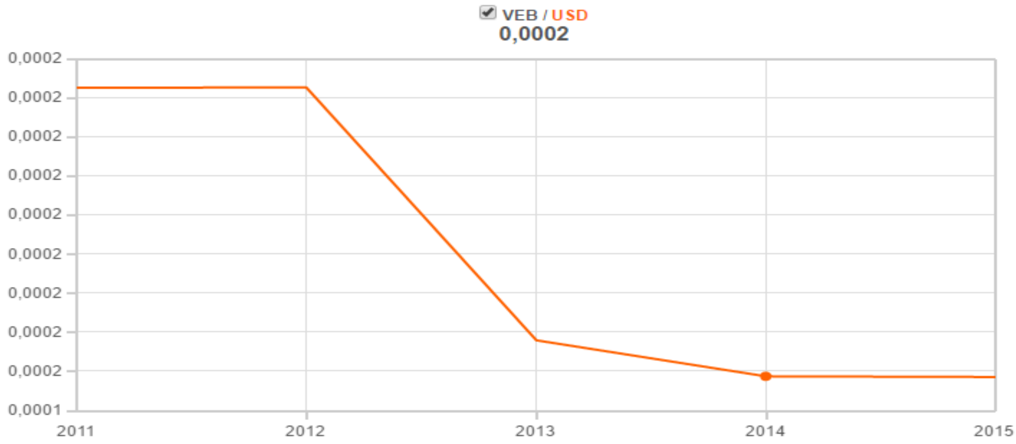
1. **Official dollar:** Applied to health sectors, medicine, food, missions and large missions and vital areas of basic income.
2. **Simadi: (Marginal Currency System)** Can be used by natural persons and public and private companies that carry out transactions in foreign currency through debt bonds and bank transfers.
3. **Sicad:** (Supplementary Currency Management System) "This type of exchange

is the one used for shopping on the internet, travel abroad, travel cash for children and adolescents and other currency concepts (the world)"

2.9.3.1 Evolution of the exchange rate

Figure 29 shows the evolution of the Venezuelan Bolívar against the US dollar annually during the last five years.

Figure 29 Evolution of TC VEB/USD



Source: *https://www.oanda.com/lang/es/currency/historical-rates/*

Author: *Author*

In five years, the Venezuelan Bolivar has behaved consistently. During the years 2011 and 2012 it has remained at 0.000233 VEB per each ollar. However, in 2013 it decreased to 0.000168 VEB per each American dollar. In 2014 and 2015 it remained constant at 0.000159 VEB per each american dollar.

CONCLUSION

In the last two years, the Ecuadorian economy has registered an unfavorable growth compared to previous years. In 2015, the growth of 0.29%, as a consequence of the drop in the oil prices from $37.04 (December 2014) to $ 53.27 (December 2015), means that the economy has had fewer resources for financing itself, an increase in unemployment, and inflation.

The accumulated deficit presented in the trade balance has led to the adoption of government measures such as the application of safeguards; that is to say, a surcharge of 5 to 45% was set on more than 2,800 sub-items from abroad. Among these sub-items is the capital goods required by the manufacturing industry. In addition, with this measure the government sought to deal with the appreciation of the dollar and the fall in oil prices.

For its part, Venezuela, just as our country was affected by the fall in oil prices. The price of oil rose from 92.38 Bolívares in 2014 to 43.57 bolívares in 2015, affecting inflation in kind since it registered a variation of 141.5% during this year.

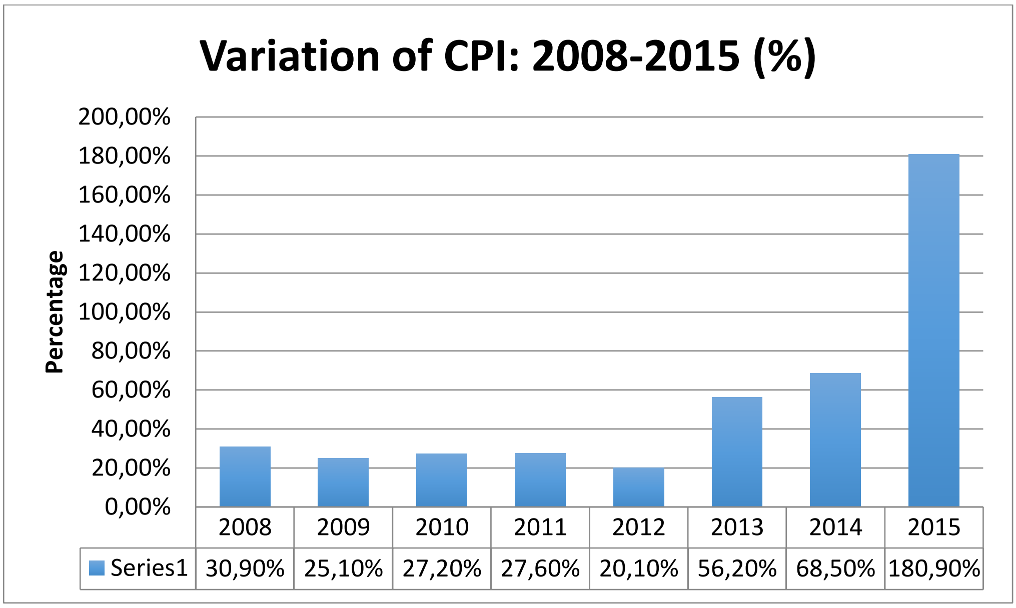
Venezuela's balance of payments, in addition to the price of oil, was affected by smuggling and the commercial destabilization of goods and services.

As for the textile sector in Ecuador, despite having diversified its production in recent years, is currently being affected by restrictions on imports of capital goods imposed by the government. In October 2015, exports fell by 27.16% compared to 2014. Despite the poor economic situation, by September 2015 this sector generated 160,000 jobs in textiles and clothing.

Currently, the textile sector in Venezuela is going through hard times. In the year 2015 the Venezuelan textile sector presented a deficit of 50% due to the lack of raw material and foreign exchange. This sector generates 7,000 direct and 20,000 indirect jobs in Venezuela.

All this combined with the decreased purchasing power of the Bolivar, measured by the variation of the CPI. In 2007 to 2008 the variation was 30.9%. In 2009 it was 25.1%, in 2010 it was 27.2%, in 2011 it was 27.6%, in 2012 it was 20.1%, and in 2013 prices began to rise again. In 2013 it was 56.2%, in 2014 it was 68.5% and the great jump in the CPI variation for 2015 was 180.9%.

Figure 30 Variation of CPI: 2008-2015 (%)



Source: Author

Of course, this variation in prices has an inverse relationship with the level of purchasing power of Venezuelan wages.

Put differently, Venezuelans now need 25 times more money to buy what was bought in 2008.

CHAPTER III

ANALYSIS OF EXPORT FEASIBILITY

3.1 Background

An export "is the customs regime that allows the exit of goods of free circulation outside Ecuadorian territory subject to the provisions established in the current legal regulations" (National Customs Service of Ecuador 1).

Exports contribute to a large extent with the growth of an economy, are a source of employment and generate the income of foreign exchange. In turn the government currently encourages exports through programs aimed at small and medium-sized enterprises especially, seeking that these sectors of the economy have greater ease of access to foreign markets.

Jeans Text Co. Ltd. is a company established in the Cuenca market and has extensive experience in the manufacture of jeans for men and women. It also offers household products such as towels and sheets.

As mentioned in chapter one, the factory makes use of 60% of its productive capacity, thus giving it an advantage of growth given the incentives of the government in turn to open up to international markets, it is important to realize the feasibility of exporting Jeans to the Venezuelan market.

3.2 Target market

Before starting with the feasibility analysis, it is important to determine the population or population group to which the company when exporting its product to the Venezuelan market intends to sell to.

3.2.1 Segmentation

Considering the Venezuelan market, the segmentation to be used by the company is defined as follows:

- **Macro segmentation**

The consumer market is defined by all people belonging to the city of Caracas, capital of the Bolivarian Republic of Venezuela [Table 21].

Table 21 Population of Venezuela by age ranges

AGE RANGE	2015
From 10-14 years	75,507
From 15-19 years	74,653
From 20-24 years	69,231
From 25-29 years	60,764
From 30-34 years	48,898
From 35-39 years	42,087
From 40-44 years	36,718
Total	1,126,250

Source:*http://www.ine.gov.ve/index.php?option=com_content&view=category&id=98&Itemid=51*

The target market in the Venezuelan market is comprised of people who are between the ages of 15-44 belonging to the Capital District (Caracas). According to the National Institute of Statistics (INE), there was an expected population of 1,126,250 inhabitants for 2015, these being the target market of the factory Jeans Text.

- **Micro segmentation**

For micro segmentation, the same criteria are used for the domestic market, ie the Venezuelan market is defined according to the sex of the person, age group and socio-economic level.

According to the AVN (Agencia Venezolana de Noticias), the average household income for the year 2015 was 23,000 Bolivars, while the average household consumption of clothing and footwear is 9.6% of the total income.

The 44.85% of the population is in the middle stratum, 27.4% belong to the lower middle class and 1.9% to the lower class. In this way, Jeans Text's future clients are people of both sexes in the middle or middle-to-low strata. These three strata are considered because the comfortable price anticipated for the pants, will allow people of these strata have access to it.

3.2.2 Positioning

The company plans to adjust its positioning over time, since it is the first time to extend its product to the international market. For its positioning in the international market will use the following strategies.

3.2.2.1 Quality Positioning

Jeans Text products have been of high quality since the company’s inception, so the factory's strategy will be to continue to produce under the quality standards currently used, seeking to face the competition.

3.2.2.2 Competitive positioning

Since price is the key factor in a person’s decision to purchase, a potential client first compares price when making that decision. The company intends for the price of jeans to be as adjustable as possible so that they can compete with others national and international products that are already present in the Venezuelan market.

3.3 Tariff items

A tariff item corresponds to the identifier of the goods and is classified by group of goods (PROECUADOR).

This categorization is based on the NANDINA (Nomenclature of the Harmonized System of Designation and Codification of Merchandise), which is nothing more than a common nomenclature for countries that integrate the Andean community, among them Ecuador and Venezuela.

All foreign trade merchandise has a tariff designation. This way in the case of Jeans-Text Co. Ltd., it is recommended that the following tariff designations for the exportation of their products, for both men and women, be used [Table 22].

Table 22 Jeans Tariff designations

Product	Material	Tariff Item	Ad-valorem
Long pants for men and boys	Cotton, mixed cloth or denim	6203.42.00	20%
Long pants for women and girls	Cotton, mixed cloth, or denim	6204.62.00	20%

Source: *Author, based on information from custom tariffs of Venezuela*

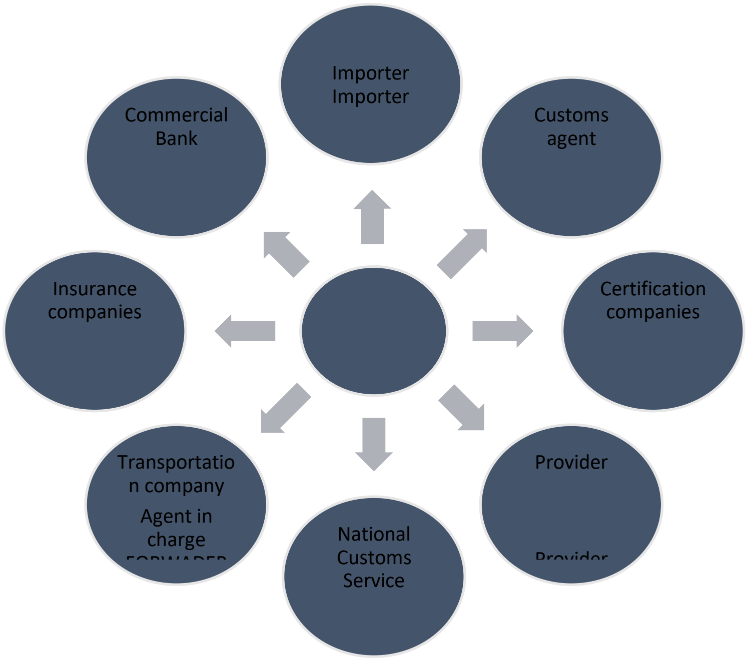
According to Table No. 22 to Jeans Text Co., Ltd. is responsible for paying the 20% ad valorem tax to enter its product into the Venezuelan market. However, Ecuadorian products entering the Venezuelan market enjoy a 100% preferential tariff, a benefit granted to members of the Andean Community (CAN) to which Venezuela no longer belongs, but nonetheless still recognizes.

3.4 Exportation Process

3.4.1 Organizations involved in the process

All natural or legal persons, national or resident in the country, can carry out export activities (Proecuador). The agencies involved in the exportation process can be seen in Figure 31.

Figure 31 Organization involved in the process

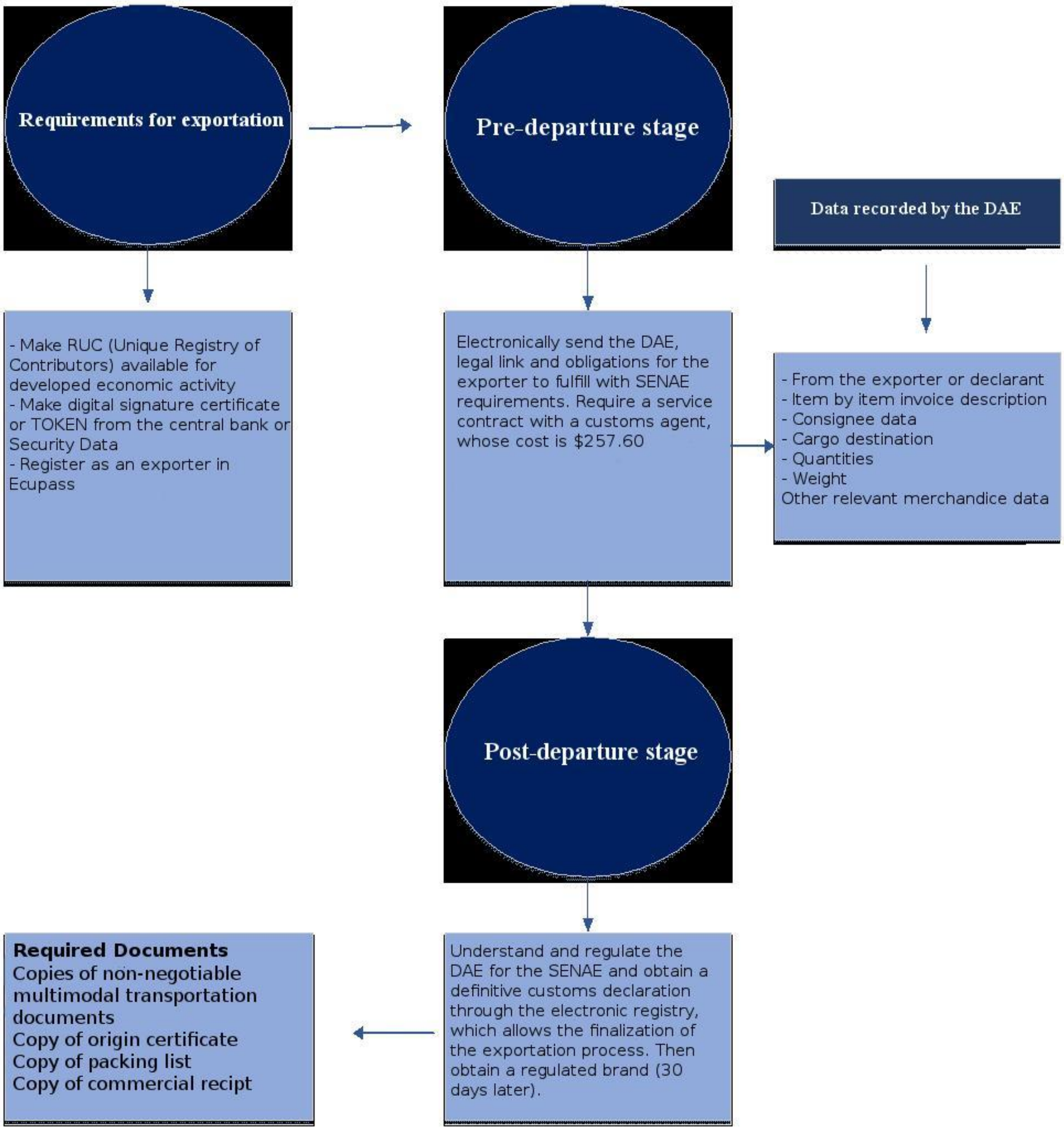


Source: *Exporter's Guide. PROECUADOR (2014)*

3.4.2 Stages of exportation

The exportation process comprises three stages, which are detailed in Figure 32.

Figure 32 Exportation Stages



Source: *PROECUADOR, Exporter guide 2014*

Author: *Adriana Guamán*

After sending the DAE (Export Declaration), the quotation is made between the exporter and importer. A quote is the document that establishes the rights and obligations of the exporter and importer in order to avoid risks in the commercial operation (Proecuador)

Export charges can be made through letters of credit, bank account, bank account, and the unique regional compensation system (SUCRE). SUCRE is a virtual means of payment between central banks for trade operations between member countries that include Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Nicaragua, Saint Vincent and the Grenadines, Uruguay and Venezuela. The local liquidation (payments to exporters and collections to importers) is made with the respective currency while in Ecuador it is made with the US dollar.

3.4.3 Incoterms

The International Commerce Terms is a set of international standards created by the International Chamber of Commerce. These standards or rules aim to establish defined criteria on the distribution of expenses and transmission of risks between the two parties involved in the international sale (CGL).

They are designed to regulate the following problems:

- Delivery of goods
- Transfer of risks
- Distribution of expenses
- Documentation and formalities

For exports by sea the following terms can be used:

FOB: Free on board (to the agreed loading port)

FAS: On the side of the vessel (to the agreed loading port)

CFR: Cost and freight (to the agreed destination port)

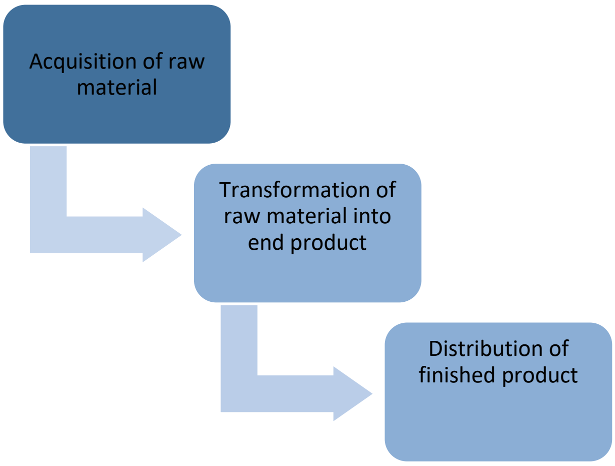
CIF: Cost, insurance and freight (to the agreed destination port) (CGL).

For the export of jeans to Venezuela it is recommended to use the incoterm FOB since the cost of transportation of the merchandise is adjusted until it is placed on board the ship, excluding freight.

3.4.4 Exportation Logistics

This refers to the transportation of the merchandise to the buyer's premises. Prior to the shipment of goods for the production of the final product, in this case jeans. The company follows the following process, as mentioned in the first chapter:

Figure 33 Exportation Logistics



Source: Adriana Guamán

In order to place the product in other foreign markets it is important to analyze the logistics to be used. The following describes each of the elements that must be taken into consideration in order to transport the merchandise to the warehouse of the buyer.

3.4.4.1 Product Labeling

Its purpose is to show the buyer information about the name, brand and product design, as well as to indicate the size, weight, components, instructions for use, warnings, manufacturer name, laws, and regulations depending on each industry.

Labels may be permanent or non-permanent and within clothing. The Ecuadorian standardizations guide states that they must be visible and easily accessible to the consumer. The following information must be understood.

- The label must contain the information in Spanish.
- Sizes for clothing and dimensions for household linen.
- Percentage of textile fibers, ie the composition of the garment.
- Name and identification of the RUC of the manufacturer or importer (Ecuadorian Standardization Service INEN 1)

Regarding Venezuela, its regulations establish that any clothing (textile) that is marketed within the Venezuelan territory must have a label in Spanish containing the following:

- Name, denomination or business name of the national manufacturer or importer.
- Brand
- The text "Made in Venezuela" or in the country of manufacture, in case of being imported.
- Size of the clothing (textile).
- Information on the composition of the fiber or material used in the manufacture of the clothing (textile).
- Instructions on the care of the garment (textile).
- The Tax Information Registration Number (RIF) of the manufacturer or importer. (Ministry of Production and Trade)

3.4.4.2 Product packaging

This is the wrapping material or protection for the product, and grants the product protection from its manufacture to its sale, promotion, and image improvement. In the case of Jeans Text, plastic sheaths are used to protect the product and for its marketing and sale it is recommended to continue using the same packaging in order to reduce costs.

3.4.4.3 Product packaging

The packaging is basically a container or material that temporarily surrounds or restrains the merchandise or product to provide protection (Senaintro). Jeans will be used for secondary and tertiary packaging.

For the secondary packaging it is recommended to use corrugated boxes of 50x45x30cm, inside which six jeans can be deposited, and that are secured with film paper.

The tertiary packaging requires a 20-foot container (6x2.4 m) for solid cargo. All this under standard ISO 780 and 7000 complying with the triple condition of the chosen means of transport as is its resistance, stability and impermeability.

3.4.5 Transportation for export

For the freight forwarding process in maritime traffic, it is necessary to have the services of a freight forwarder or consolidator (Avendaño and Peña). Some freight forwarders with transit to Venezuela are:

- Panalpina
- Krystal Logystics
- Costaline
- Express cargo line

Figure 34 International Transit Route: Ecuador-Venezuela

Source: www.google.com.ec/maps

Once the DAE is delivered together with the supporting documents to the customs agent for the corresponding presentation, the merchandise must be ready for dispatch from the Jeans Warehouse Text Co. Ltd, for which it would be necessary to contract the internal transportation that moves the cargo from the city of Cuenca to the forwarder warehouses in Guayaquil, which also has the obligation to consolidate and carry out the dispatch in the port of Guayaquil.

3.5 Financial analysis

3.5.1 Production volume

The production volume of the factory is currently 381 jeans per month; however, it must be taken into account that only 60% of its productive capacity is used among the three items it produces, jeans, sheets and towels. Noting that if the factory makes use of 100% of its capacity can duplicate the production of jeans monthly, thus generating an advantage for the product to be exported.

The current production volume of jeans is shown in Table 23.

Table 23 Production Volume

Jeans Sizes	Total
10	95
12	95
14	95
16	95
Total for export	381

Source: *Jeans Text Co. Ltd.*

Author: *Author*

Each month, 50% of women's pants and 50% of men's pants are made in the different sizes presented in Table 23, and the volume of each size is produced in equal proportions.

3.5.2 Production cost

The cost of direct raw material for ladies ($4.71) is higher than the cost for gentlemen ($4.49) as this article is made from cotton, polyester and spandex.

Table 24 Direct Cost of labor

Description	Annual	Monthly	Daily	Hourly
DIRECT LABOR + SOCIAL LOANS	37,392.80	3,149.40	140.98	17.62
Cost of labor per hour				17.62
Volume of daily production				16.00
Volume of production per hour				2.00
MO cost per pants				**8.81**

Source: *Own research*

Author: *Author*

The average daily production is 16 pants, given that there are only 10 workers who also have the task of making sheets and towels.

Table 25 Cost of indirect raw material

Description	Unit of measurement	Cost per Unit	Units Used	Total Cost of Raw Materials
Markings	Unit	0.20	1	0.20
Labels	Unit	0.12	1	0.12
Cardboard lables	Unit	0.20	1	0.20
Plastic bags	Unit	0.02	1	0.02
Total CIF				**0.54**

Fuente: Own research

Author: Author

Table 26 Unit of production cost

Description	Men	Women
MPD Cost	4.49	4.71
MOD Cost	8.81	8.81
MPI Cost	0.54	0.54
Cost per unit of production	**13.84**	**14.06**

Source: *Own research*

Author: *Author*

The unit cost of men's production differs by 0.50 cents given the use of different direct raw material in the case of women, but there is no other reason for this disparity.

To carry out these exports, the company has to assume the costs of packing the merchandise and the cost of internal transportation. These are presented in Table 27.

Table 27 Indirect cost of exportation

Description	Unit of measurement	Cost per Unit	Units Produced	CIF per unit
Packing and Wraping	Unit	95,50	381,00	0,25
Internal freight	Unit	190,75	381,00	0,50
Total CIF				**0,75**

Source: *Own Source*

Author: *Adriana Guamán*

In this way, the unit cost of production must include the cost of exporting the goods

3.5.3 Sale price

The sale price is determined based on the expected profit margin that is desired. For this case, a 25% profit margin is considered, and since the direct raw material costs differ in jeans for ladies and gentlemen, Table 28 shows the prices of jeans are presented up to the port of Guayaquil.

Table 28 Export sales price

Description	Men	Women
MPD Cost	4.49	4.71
MOD Cost	8.81	8.81
MPI Cost	0.54	0.54
IF Cost	0.75	0.75
Costo of Finished Products	**14.59**	**14.82**
25% Margin Profits	3.65	3.70
Guayaquil port price	18.24	18.52

Source & creation: *Author*

The prices presented by some estimations are high but it must be taken into account that this pricing is characterized by a consumer society and its national production is small in terms of textile manufactures. In addition, it is a very price sensitive economy. Competing with the Venezuelan national market may not result in the best prices, but if the price becomes reasonable compared to the high quality products available there then competitive pricing may become possible.

3.5.4 Calculation of profitability

By calculating the gross profit margin, the feasibility of exporting jeans Jeans to Venezuela will be determined.

$$Gross\ profit\ margin = \frac{Sales - Cost\ of\ goods\ sold}{Sales}$$

$$Gross\ profit\ margin = \frac{7{,}5380.35 - 10{,}918.09}{75{,}380.35}$$

$$Gross\ profit\ margin = 0.86\%$$

For every dollar the company sells, it earns a 0.86% profit after covering all costs of producing such merchandise. This is positive for the company because the costs of production are lower than the selling price.

3.6 Export Risk Analysis of Jeans

In order to comply with the objective of this research, it is necessary to carry out a comparison of the price of the product in the domestic market against the price of this product in the Venezuelan market.

According to secondary sources, the price of jeans for both ladies and gentlemen currently ranges from 520.00 to, after applying the exchange rate, $52 in US dollars. Comparing this price with the proposed export price there is a great difference, on the one hand this is an advantage for the products of Jeans Text since the price at which the product would be offered in Venezuela would be lower than the existing prices in that country; however, it is also necessary to consider the purchasing power of Venezuelan consumers, since the greater the purchasing power, the greater the possibility of acquiring the product.

The purchasing power of Venezuela in the year 2015 fell by 45%, which limits access to certain goods including clothing, thus generating a great disadvantage for the delivery of this project since there is a risk of a low demand for the product. On the other hand, it is also important to consider the risk of the appreciation or devaluation of the currency in this business: the US dollar and the Venezuelan bolivar. The appreciation of the US dollar may lead to a drop in exports affecting the economy in general since the value of the US dollar is higher, which makes exports more expensive and less competitive.

For its part, the devaluation of the Venezuelan Bolivar means that this currency loses value against the US dollar thus affecting imports and favoring exports from the Venezuelan country so, the risk of a decision of devaluation by the Venezuelan government or an appreciation of the dollar is very high and can negatively impact the exportation of jeans.

In this way it can be concluded that the export of jeans is not feasible since factors such as the exchange rate and purchasing power of the target market are unfavorable and, together with the appreciation of the US dollar, generate a high risk of losses in case of export.

CONCLUSION

This chapter analyzes the feasibility of exporting jeans by the company to the Venezuelan market considering the great contribution they have to the Ecuadorian economy. All natural or legal persons can carry out the economic activity of exportation; the same must also comply with a series of requirements.

The feasibility of the project was determined using the gross profit margin indicator, which was positive. For every dollar that the factory sells from its products, it gains 0.86% of its gross margin. Prior to obtaining this indicator, it was necessary to obtain production costs per unit, in this case the costs were determined for both ladies' and men's pants because the pants of the former are not 100% cotton like the men’s.

Unit production costs for these differed only by 0.50 cents, so it has no greater significance and incidence in meeting the research objective. In addition, the unit costs of production were included in the new costs for sale upon exportation, should the exportation plan be carried out. Those sale prices are US $18.24 for men and $18.53 for women.

The government has attempted to counter these pressures by implementing a regime of multiple exchange rates and additional exchange controls. These measures have contributed to a strong external adjustment due to import restrictions.

CONCLUSION AND RECOMMENDATIONS

After the development of this research the following conclusions were reached. Jeans Text Co. Ltd., is a company consolidated in the local market, with 25 years of experience in offering jeans for both men and women. At present, this company is going through a healthy financial economic situation so expanding its product to other markets may be viable.

On the other hand, the economic situation of Ecuador and Venezuela is characterized by oil exporting economies. The fall of this product has meant that these economies are currently going through hard times. Measures such as import restrictions, through the safeguards package, have been created to counteract the economic crisis. This has encouraged the domestic industry and has promoted promotion exports.

For its part, the Venezuelan government, in order to counteract its crisis, has created a system of foreign exchange that has not generated the expected effects thus, imports have been especially affected, causing foreign exchange income to decrease for Venezuela. This has affected industries such as textile manufacturing, showing an unmet demand in the Venezuelan market.

As for the export feasibility, this turned out to be positive. Based on the financial analysis, the factory would earn USD 0.85 for every dollar it invests. However, the economic crisis that Venezuela is facing makes this project unfeasible since the importation restriction is a barrier to Jeans Text Co. Ltd. carrying out its exports.

RECOMMENDATIONS

After the completing this research it is recommended that the factory Jeans Text:

1. Establish marketing strategies that allow them to be recognized in the domestic market. While their recognition comes through years of experience it is important for their growth to invest in advertising, either by electronic means or billboards.

2. Take advantage of government incentives to access investment credit and invest in the company with the necessary resources for its productive growth.

3. Invest in labor and machinery to increase its level of production making 100% use of its productive capacity to promote national coverage for its products.

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ANNEXES

ANNEX I **BALANCE GENERAL JEANS TEXT CO., LTD.**

GENERAL BALANCE		
JEANS TEXT		
	YEAR 2013	YEAR 2014
ASSETS	**$ 62,245.33**	**$ 59,402.13**
CURRENT ASSETS	**$ 26,929.70**	**$ 24,086.50**
Available	$ 11,815.99	$ 9,467.87
Debtors	**$ 3,300.00**	**$ 2,000.00**
Clients	$ 1,300.00	$ 900.00
Anticipated taxes	$ 300.00	$ 200.00
Unpaid debts	$ 1,700.00	$ 900.00
Inventory	**$ 11,813.71**	**$ 12,618.63**
Finished products	$ 1,880.90	$ 2,020.67
Unfinished products	$ 4,698.81	$ 5,100.12
Raw materials	$ 5,234.00	$ 5,497.84
FIXED ASSETS	**$ 35,315.63**	**$ 35,315.63**
Machines and equipment	$ 22,000.00	$ 22,000.00
Computer equipment	$ 1,215.63	$ 1,215.63
Vehicles	$ 15,000.00	$ 15,000.00
Depreciation	$ 2,900.00	$ 2,900.00
LIABILITIES	**$ 7,456.33**	**$ 8,200.13**
CURRENT LIABILITIES	**$ 7,456.33**	**$ 8,200.13**
Debts to pay	$ 7,456.33	$ 8,200.13
ASSETS	**$ 54,789.00**	**$ 51,202.00**
CAPITAL	$ 39,000.00	$ 36,548.00
PROFITS	$ 15,789.00	$ 14,654.00
TOTAL LIABILITIES + ASSETS	**$ 62,245.33**	**$ 59,402.13**

Source: Author, based on information offered by the company

ANNEX II RESULTS BALANCE JEANS TEXT CO. LTD.

BALANCE RESULTS		
JEANS TEXT		
	YEAR 2013	YEAR 2014
SALES	**97910.02**	**$ 96,452.00**
COST OF SALES	**$ 70,372.21**	**$ 70,255.48**
Costos de fabricación directos	$ 56,897.00	$ 58.275.00
Costos de fabricación indirectos	$ 13,475.21	$ 11.980.48
GROSS PROFIT IN SALES	**$ 27,537.81**	**$ 26,196.52**
COST OF SALES	**$ 11,748.81**	**$ 11,542.52**
OPERATIONAL COSTS	**$ 1,500.92**	**$ 2,034.00**
ADMINISTRATIVE COSTS	**$ 7,861.89**	**$ 7,913.52**
Work supplies	$ 875.00	$ 800.45
Electricity, water, telephone	$ 1,481.52	$ 1,356.00
Vehicle depreciation	$ 600.00	$ 600.00
Fuel	$ 1,044.00	$ 1,081.44
Replacements	$ 187.00	$ 356.00
Administrative costs	$ 3,467.00	$ 3,593.00
Taxes, contributions, and others	$ 207.37	$ 126.63
SALES COSTS	**$ 2,386.00**	**$ 1,595.00**
Promotion and publicity	$ 154.00	$ 115.00
Transportation	$ 2,232.00	$ 1,480.00
EXERCISE PROFITS	**$ 15,789.00**	**$ 14,654.00**

Source: Author, based on information offered by the company

ANNEX III EXPORT CUSTOMS DECLARATION FORM DAE

REPUBLIC OF ECUADOR

EXPORT CUSTOMS DECLARATION

Export declaration detail consultation

DAE number	028-2012-40-00005727

General information

District code	GUAYAQUIL - MARITIMO	Regime code	EXPORTACIÓN DEFINITIVA
Type of dispatch	DESPACHO NORMAL	Declarant code	01903692

Exporter information

Name of exporter	CAFÉ ECUATORIANO S.A	Declarant phone number	2597980
Address of exporter	Edificio World Trade Center		
RUC number	RUC 120244753001	Exporter City	GUAYAQUIL
CIIU	CAFÉ EN GRANO	Document number	
Name of declarant	CESAR RUÍZ		
Address of declarant	CALLE SUR E INTERSECCIÓN		
Payment method code		Currency Code	DÓLAR ESTADOUNIDENSE

Freight information

Cargo port		Private port of departure	
Arrival port		Date of letter	15 ENERO 2013
Consignee name	GLORIA S.A		
Address of the above	VII SAN MARTIN Y CALLE 2		
Contributing city	BUENOS AIRES	Type of cargo	CARGA CONTENERIZADA
Place of warehouse	[05909025] CONTECON GUAYAQUIL S.A.	Mode of transportation	MARITIMO
Final destination country	ARGENTINA		

US DOLLAR

Totals

Money code	US DOLLAR	Type of change	1
Total currency transaction (FOB)	662,01	Number of items	1
Total net weight	8328	Total weight	8328
Total quantity of packages	64	Number of containers	1
Total quantity of physical units	64	Total quantity of commercial units	64
Code of urgent despatch goods		Seating solicitude code	NO
Date of first entry		Date of first departure	

Illustration 30: Customs declaration of export

Source: Proecuador

ANNEX IV QUOTE PROFORM

Example of export quotation

PROFORMA No. 001/2013 EXP

GUAYAQUIL, 23 OF AUGUST 2013

FOR: EMPRESA IMPORTADORA S.A.
FROM: SRTA. ISABEL REYES
BOGOTÁ – COLOMBIA

PRODUCT DESCRIPTION :
700,000 ENVASES CON PRODUCTO LOMITOS EN ACEITE, REF: CAPACIDAD 180 GRAMOS CON TAPAS ABRE FÁCIL. A US$ 150 EL MILLAR FCA GUAYAQUIL.

TOTAL FCA VALUE GUAYAQUIL	US$ 105,000.00
LAND FREIGHT (7 CONT. 40' HC)	US$ 14,000.00
VALOR CPT BOGOTÁ – COLOMBIA	US$ 119,000.00

TOLERANCE +/- 10% IN QUANTITIES AND VALUE

TERMS : CPT (INCOTERMS 2010)

TARIFF ITEM : 1604.14.10

FORM OF PAYMENT: THE PAYMENT SHALL BE MADE BY BANK TRANSFER TO CHECKING ACCOUNT # XXXXX FROM BANCO DEL PACÍFICO ABA # XXXXX BENEFICIARY: EXPORT COMPANY S.A.

VALIDITY OF THE PROFORMA: 30 DAYS

PARTIAL SHIPMENTS: PERMITED ACCORDING TO INSTRUCTIONS
TRANSHIPMENTS: PERMITTED

TIME FOR DELIVERY: 30 DAYS UPON RECIEVING THE TRANSFER

INSURANCE: ON THE BUYER'S ACCOUNT. IF THERE IS NO INSURANCE FOR THE MERCHANDISE IT WILL TRAVEL AT THE BUYERS RISK, WITH THE UNDERSTANDING THAT THE COMPANY EXPORTADORA S.A. ENDS ITS DUTY BY DELIVERING THE MERCHANDISE TO THE CARRIER.

SINCERELY,

SR. JOSÉ LÓPEZ
CHIEF OF FOREIGN TRADE

14

Illustration 31: Quotation document

Source: Proecuador

Author: Proecuador