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“ANALYSIS OF THE CONDITIONS IN ECUADOR FOR POSSIBLE MEMBERSHIP INTO
MERCOSUR.”

THESIS PRIOR TO OBTAINING A DEGREE IN INTERNATIONAL STUDIES,
BILINGUAL FOCUS IN FOREIGN TRADE

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Acknowledgment

I want to dedicate this graduation work to my beloved parents, Ramiro and María Esthela, who are precursors to my entire happiness. Thank you for a lifetime of love and absolute commitment.

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Abstract

This study will present an economic analysis of Ecuador over the last 10 years and its participation in international trade. In addition, I will include research on the important global participation of MERCOSUR, as well as the requirements to enter the South Market and relevance of member countries within this treaty. An analysis of the requirements for Ecuador to enter the treaty will be included. Finally, to determine whether Ecuador has economic, social and sustainable policies to be an established member of MERCOSUR, the same research comparison of the economy and international production of Ecuador with the modern countries that will be done through this international treaty together with an analysis of the ability of Ecuador to meet the requirements to join MERCOSUR.

Ecuador is a country that is working for a future without oil dependence to be a renewable resource and in order to keep pace with Latin American economies. These economies are growing because their international investment and industrialized assets are really important in the world.

Analysis of the conditions of Ecuador to enter MERCOSUR

Introduction

We live today in an era where power and economic stability are the basis of an outstanding nation. That is why Latin America has entered a new stage of development with an objective of integration; this is the proposal of MERCOSUR, the clearest example of a policy of South American integration where one thinks and functions as one entity, and where decisions are made as collectively, with the aim of achieving mutual benefit.

For this reason, a timeline of this important economic group will be presented and their background will be discussed; as well as the evolution, strengths, and weaknesses, taking into account the participation of its five current full members.

We will also investigate the economic relationship, politically and commercially, of Ecuador with the members of MERCOSUR, thus demonstrating how Ecuador could be a full member of the *Mercado Común del Sur* and work with the same harmony as the current States.

Knowing that Ecuador is considering membership in the *Mercado Común del Sur*, an economic analysis was conducted to find out under what conditions membership into MERCOSUR would benefit Ecuador.

Chapter 1. *Mercado Común del Sur*, MERCOSUR

The first chapter will encompass the history, structuring, and functioning of MERCOSUR on an internal and global level; here we will explain its strengths and weaknesses. The information will be of utmost importance for Ecuador in the process of accession into the *Mercado Común del Sur*.

1.1 History of MERCOSUR

1.1.1 History of MERCOSUR

The entity called *Mercado Común del Sur*, better known as MERCOSUR, consists of the Republic of Argentina, the Federal Republic of Brazil, the Republic of Paraguay (suspended entity), the Eastern Republic of Uruguay, the Bolivarian Republic of Venezuela and the plurinational State of Bolivia (in process of accession). MERCOSUR was formed on March 26, 1991, with the signing of the *Treaty of Asunción*, which established a platform of strict guidelines applicable to all members.

The founding members of MERCOSUR: Argentina, Brazil, Uruguay and Paraguay, each exercising their right of will and governed by public international law, agreed that the *Mercado Común del Sur* would be led by a set of values extracted from good morals and common understanding by sharing, “a communion of values which finds expression in their democratic, pluralistic societies, defending fundamental freedoms, human rights, protection of the environment and sustainable development, as well as their commitment to the consolidation of democracy, legal security, the fight against poverty and economic and social development with

equity.”¹ With these fundamentals, member countries, sovereign and democratic, aim to maintain the entity with the premise of always finding the common good as a unit and no longer as independent segments.

The *Treaty of Asunción* was conformation of the entity; which was signed and ratified in the capital of Paraguay, establishing the program and structure that the entity would continue to comply with the economic, commercial, social, and political objectives which are summarized as:

“The free movement of goods, services, and production factors between countries, the establishment of a common external tariff and a common commercial policy, the coordination of macroeconomic and sectorial policies among States based on outside trade, agricultural, industrial, monetary, fiscal, foreign exchange, capital, services, transport, and the harmonization of laws to achieve the strengthening of the integration process.”² With these established bases, MERCOSUR embarked on a process of transition with the objective of achieving a common market on December 31, 1994. Although the entity already enjoyed representation and recognition by the international community, it would continue to grow and evolve in a dynamic way.

The Presidents’ Summit of December 1994, approved an additional protocol to the *Treaty of Asuncion*, the *Ouro Preto* Protocol; which established the institutional structure of MERCOSUR and gave it international legal personality. *Ouro Preto* ended a period of transition and

¹ MERCOSUR, 2013

² MERCOSUR, 2013

fundamental common commercial policy instruments that governed the areas of free trade and customs union that characterizes MERCOSUR today; it was here that the common external tariff was adopted. With this step, MERCOSUR already positioned itself in a satisfactory manner, where the States Parties achieved the proper functioning of the Customs Union, but with a new need to adapt the institutional structure of MERCOSUR to the new changes that were presented at that time.

On July 24, 1998, a more evolved MERCOSUR laid a legal foundation putting limits, warnings, and sanctions on the non-compliance of the democratic order; the States formed the *Treaty of Ushuaia* (Argentina), which reiterates that “the full force of democratic institutions is an essential condition for the development of the processes of integration between States based on this Protocol.”³

In clarifying that the member does not comply with democratic safeguards, said member can be suspended from the right to participate in the various bodies of the respective integration processes, even up to suspension of the rights and obligations arising from these processes, for which the other members must agree and publish a penalty. In this protocol there is a specific mention of Bolivia and Chile as declaration states that would work continuously with MERCOSUR. The *Ushuaia* MERCOSUR Protocol affirms its commitment to comply with the principles and objectives signed since its inception; this protocol is still used today.

³ MERCOSUR, 2013

The settlement of disputes was the next step to be developed to support the evolution of the entity, that is why on February 18, 2002, the *Olivos Protocol* (Argentina) was formed, stating its main objective as, “the need to ensure the correct interpretation, application, and fulfilment of the fundamental instruments of the process of integration with the whole policy of MERCOSUR in a consistent and systematic manner.”⁴ With the *Olivos Protocol*, the process for dispute resolution guidance ranges from direct negotiations between the members to arbitral intervention by the Common Market Group (GMC), in this way the entity tries to eliminate any conflicts that may arise between the members of MERCOSUR in an impartial, and above all, internal manner.

On July 07, 2004, in *Puerto Iguazu* (Argentina), States came together to form the idea of unifying opinions, and economic and commercial projects, within the entity by creating the Fund for Structural Convergence of MERCOSUR in order to increase the competitiveness of the members and at the same time strengthen MERCOSUR’s productive matrix. The foreign ministers of different governments worked on three specific objectives: “promote structural convergence; develop competitiveness and promote social cohesion, particularly smaller economies and less developed regions; and support the operation of the institutional structure, as well as the strengthening of the integration process.”⁵ This new project strived to strengthen the weaker States, thus creating more homogeneous competition, as well as positioning itself in a comprehensive manner with a relevant importance within the international community.

The *Mercado Común del Sur*, in one of the stages of their progress, sought the need for an institutional body, thus creating the MERCOSUR Parliament on December 09, 2005, in

⁴ MERCOSUR, 2013

⁵ MERCOSUR, 2013

Montevideo (Uruguay). This parliament was founded with the goal of covering the institutional needs of the citizens of the States by, “creating a common space in which the pluralism and diversity of the region is reflected; and contributes to democracy, participation, representativeness, transparency, and social legitimacy in the development of the process of integration and its regulations.”⁶ The MERCOSUR Parliament acts on different topics, according to the competence of each of its ten commissions, and thus acts as a common body in which members of MERCOSUR feel identified with Parliament; this body is susceptible to recommendations, opinions, and criticisms that citizens can make through their channels of communication.

To embody the purposes of MERCOSUR in an optimal manner, the Bolivarian Republic of Venezuela expressed its full commitment to enter the *Mercado Común del Sur* since it is consistent with the principles of gradualism, flexibility and balance, recognition of asymmetries and differential treatment, as well as the principles of food safety, livelihood and rural environmental development. The members of MERCOSUR on July 04, 2006, in Caracas (Venezuela), officially welcomed Venezuela into its group of members. This act was completely positive due to the principles of South American integration under the context of a Latin American union; emphasizing the intention of the Bolivarian Republic of Venezuela to uphold the objectives of integration, poverty eradication, and the increase of global competitiveness.

To accept the accession of Venezuela, MERCOSUR set a date of four years for its reception and adaptation to the rules of the entity, such as the common nomenclature of MERCOSUR (NCM) and the common external tariff (AEC).

⁶ MERCOSUR Parliament, 2013

The States parties, in accordance with article 5 of the Protocol of accession of Venezuela, committed themselves to achieve free trade in the following maximum periods:

Table # 1: Deadlines for achieving free trade between Venezuela and MERCOSUR.

Argentina to Venezuela	January 1, 2010
Brazil to Venezuela	
Venezuela to Argentina	1 January 2012
Venezuela to Brazil	
Venezuela to Paraguay	
Venezuela to Uruguay	
Paraguay to Venezuela	1 January 2013
Uruguay to Venezuela	

Source: (MERCOSUR, 2013)

By: Adrian Alvarado

On December 20, 2012, in Montevideo, Uruguay; the Protocol of Montevideo on commitment with democracy in MERCOSUR was formed with the aim of complying with all democratic guarantees, respect for human rights, and fundamental freedoms as a basis of integration and participation within the entity. It was stated therein that, “this Protocol shall apply in the event of a breakdown or threat of rupture of the democratic order, the constitutional order, or any

situation that puts at risk the legitimate power and the validity of democratic values and principles.”⁷ Thus, MERCOSUR strongly opposes the violation of democracy, or essence of democracy, within States; setting limits and penalties upon default, even unto suspension of one of its members should they commit an offense of this nature.

On December 07, 2012, in Brasilia (Brazil), the multinational Republic of Bolivia entered accession into MERCOSUR after 5 years of having expressed interest. Bolivia undertook to meet the same objectives as Venezuela for its income and similarly had 4 years of formal incorporation with the institutional regulatory body, the common external tariff (CET), and the common nomenclature of MERCOSUR (NCM). However, the deadlines for achieving free trade between Bolivia and MERCOSUR are being processed by the Council of the *Mercado Común*. (MERCOSUR Parliament, 2013)

1.1.2. MERCOSUR Politics

The *Mercado Común del Sur* has established itself as a strong tool with great potential in the Latin American region; in such a way that its principles, objectives, and policies are of great influence for the independent and associated States of MERCOSUR. This entity is an element of stability in the region, because the set of interests and relationships that it generates, deepen both economic and political linkages neutralizing tendencies towards fragmentation.

Governments, enterprises, and society in general are supported by a strong and reliable policy of progress based on integration, strengthening of democracy, constitutional order, the rule of law,

⁷ MERCOSUR, 2013

the promotion of human rights, the consolidation of itself as a zone of peace, promoting the internationality of the region as a whole as well as each member individually, and fostering its development with social justice.

Since 2003, MERCOSUR has implemented advertising and a strict sense of identification with regional public policies which has managed to “drive the agenda of political, social and citizenship of regional integration within the framework of the different bodies and subsidiary bodies of the institutional structure of MERCOSUR, etc. in the Forum of consultation and political coordination Meetings of Ministers, the Coordination Commission of Ministers of Social Affairs, the specialized meetings, the Human Rights Public Policy Institute, and the MERCOSUR Social Institute. Mechanisms of political dialogue and cooperation with other countries and areas of integration of regional, based on strict respect for international law, to develop consultations on the international and regional situation, deepen ties of friendship and mutual understanding, coordinate positions in multilateral forums, and discuss issues of mutual interest.”⁸

These two key MERCOSUR policies make clear its interest in all segmentations, and therefore requests the commitment of state leaders to perform their duties in the best way, maintaining a certain level of participation in the political and social sphere. Obviously, non-compliance with these agreements by States is a concise reason for a warning, punishment, or suspension.

This study supports the treatment of advertising and establishment of a sense of identity within the Member States, for that reason these policies will generate more confidence and security for

⁸ Republic of Argentina Ministry of Foreign Affairs, 2013

the people of MERCOSUR; thus preventing internal conflicts and making every citizen feel welcome. Similarly, this study believes it is very important to have imposed integration as the basis for the structure of MERCOSUR, showing homogeneity for its members.

1.1.3. A new stage in the entity

MERCOSUR was founded on the idea of the “growth of the community,” despite the differences between States. This growth policy has been encouraged since its beginning, even to the point of becoming South America’s largest trading bloc. Starting with the commitment of the States and fulfilment of rights and obligations, MERCOSUR has managed to form a powerful economic, political, and social axis, strengthened by the idea of a customs union that fortified the economies of the Member States.

Second, is the establishment of the common external tariff which sees the need for any changes to the levels of protection of the productive sectors, imposing a new style to national trade policies. This order in foreign trade shows a very positive progress within the entity:

Table # 2: Balance of trade in MERCOSUR in FOB U.S. Dollars.

Years	Exports	Imports	Balance
2007	223.964.491.320	173.972.901.895	49.991.589.425
2008	278.366.343.203	244.688.530.196	33.677.813.007
2009	217.232.711.835	177.894.618.513	39.338.093.322
2010	281.306.178.706	253.170.470.356	28.135.708.350
2011	351.478.166.262	318.641.606.763	32.836.559.499
2012	334.950.766.903	310.087.216.284	24.863.550.619

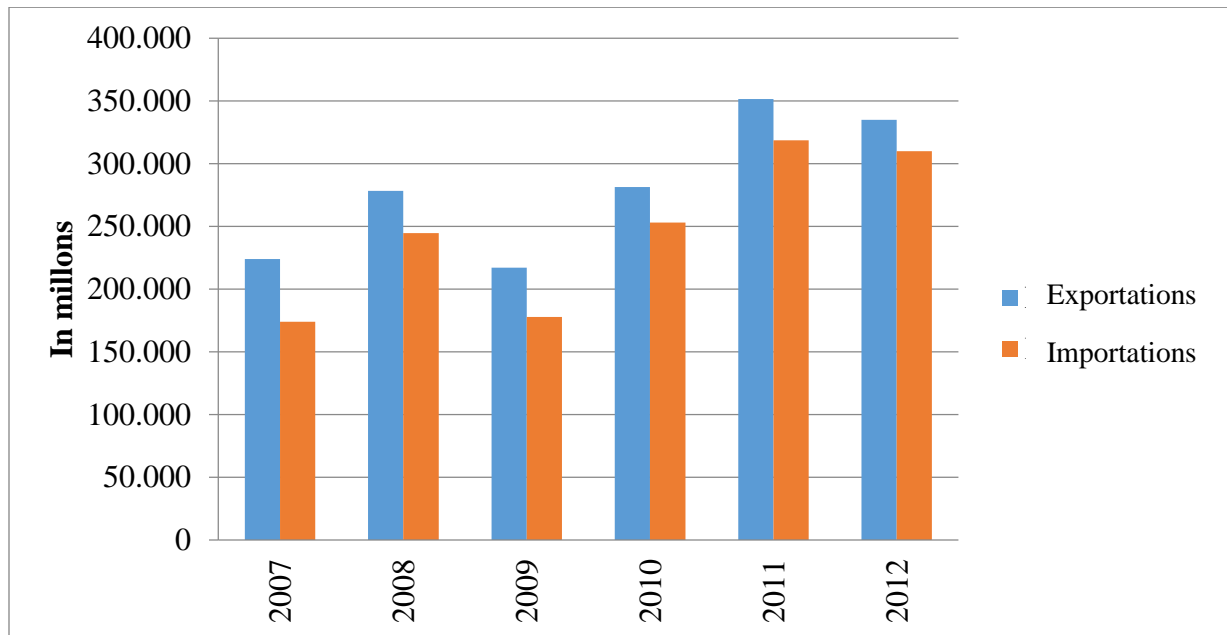
Source: System of foreign trade information analysis - MERCOSUR, 2013

By: Adrian Alvarado

Exports of goods and services of MERCOSUR to the world show progressive growth in recent years; however, figures show a decline in 2009 due to the phenomenon of the global crisis that greatly affected the industries of MERCOSUR. With this table of the past six years, one can see a favorable growth which validates the objectives and policies put in place by the entity showing a positive trade balance on a global scale.

Imports of goods and services obtained through MERCOSUR in the world have a homogeneous growth with exports, obviously with a decrease in 2009 due to the global economic crisis; however, it appears that in the last two years imports have increased considerably due to the demand of raw material and the level of industrialization that MERCOSUR has managed during these last six years, demonstrating a significant share in international trade.

Chart # 1: Balance of trade in MERCOSUR 2007-2012 in USD FOB.



Source: System of foreign trade analysis information - MERCOSUR, 2013

By: Adrian Alvarado

In the graph you can see that in all six years of MERCOSUR the trade balance is positive; however, 2011 is higher than the last year which can be interpreted as a decline in the participation of the entity. The graph shows that MERCOSUR has the ability to offer more than what the world demands and a positive trade balance from the development of the bloc as a whole.

Table # 3: The 15 most exports of MERCOSUR in 2012.

Exported products	Exported value 2012 in thousands FOB U.S. Dollars
Mineral fuels, mineral oils and products of their distillation.	116,166,774
Ores, slag and ash.	36,276,806
Oil seeds and oleaginous fruits; seeds and various fruits.	24,618,408
Motor vehicles, tractors, cycles and land vehicles.	22,272,449
Residues, animal food industries.	18,825,065
Cereals.	18,228,189
Meat and edible offal.	17,919,440
Machines, nuclear reactors, boilers, equipment and mechanical devices.	15,876,093
Sugars and sugar confectionery.	13,402,456
Smelting, iron and steel.	12,476,907
Fats and oils of animal or vegetable; edible fats and waxes	8,786,542
Coffee, tea, <i>maté</i> and spices.	6,206,313
Aerial or spatial navigation.	6,171,284
Pearl fine or cultivated, precious and semi-precious stones.	6,144,838
Machines, appliances and electrical equipment.	5,652,074

Source: Trade Map, 2013

By: Adrian Alvarado

As explained in the above table, industrially MERCOSUR has evolved to the point that its list of most exported products include: vegetables, casting machines, electrical machinery, and plastics; complemented by exporting raw materials, with a combined value of over three hundred billion dollars in 2012. Within MERCOSUR's policies to increase competitiveness is to increase value to finished products to become the top spot of the industries of the trading bloc.

Analyzing the products exported by MERCOSUR in the last four years, it can be noted that there is a line of continuity where it is clearly seen that MERCOSUR has exported the same products with a homogeneous level during the period 2007-2012.

Table # 4: 15 products imported by MERCOSUR in 2012

Imported products	Imported value 2012 in thousands FOB U.S. Dollars
Machines, nuclear reactors, boilers, equipment and mechanical devices.	57,542,830
Mineral fuels and mineral oils.	57,218,458
Machinery, appliances and electrical equipment, their parts.	41,306,590
Motor vehicles, tractors, cycles, others and land vehicles.	40,061,686
Organic chemicals.	15,755,862
Plastic materials and articles of these materials.	13,009,577
Pharmaceutical products.	11,677,777
Fertilizers.	10,667,952
Instruments, optical devices, photography, cinematography it.	9,877,119
Articles of cast iron, iron or steel.	7,366,314
Rubber and rubber articles.	7,165,911
Miscellaneous chemical products.	6,769,189
Smelting, iron and steel.	6,213,080
Pearl fine or cultivated, precious, semiprecious and similar stones	6,105,095
Aerial or spatial navigation.	4,283,325

Source: Trade Map, 2013

By: Adrian Alvarado

Imports from the *Mercado Común del Sur* are lower than exports; however, you can see that MERCOSUR countries still have a dependency on foreign products to complete their own, a symptom that should be corrected with the evolution of progressive industrialization coupled with the economic progress of MERCOSUR. Similarly the analysis of this list in the past four years shows that MERCOSUR imports the same products in a homogenous way to cover their needs.

International trade has allowed MERCOSUR to grow economically; however, imports grow almost to the same level of exports. Therefore, this study supports the plan of MERCOSUR to improve the industrialization of its members mainly from Paraguay and Venezuela which do not achieve the same industrial level as the other members. This way MERCOSUR can reach a better level of competitiveness and lower dependence on foreign products.

1.2 Objectives of MERCOSUR

Within the structure of *Mercado Común del Sur*, its objectives have become agreements, which are the guiding principles towards where MERCOSUR is headed. Since its formation in 1991, these objectives have remained the same, community development of a unified Latin America.

The overall objectives of MERCOSUR include:

1. The free movement of goods, services, and production among member countries, through the elimination of customs duties and trade barriers concerning the movement of goods, as well as any other equivalent measure.

Breaking the barriers of foreign trade was essential to complement the principle of economic and commercial integration, considering members of MERCOSUR make decisions as an entity and not as separate countries. In this way, since 1991, MERCOSUR has progressed, thus resulting in becoming the leading economic power in Latin America.

2. The establishment of a common external tariff and the adoption of a common commercial policy in relation to third party States, or groups of States, and the coordination of positions in regional and international economic trade forums.

Since 1995, MERCOSUR has had a common external tariff (AEC), in accordance with the provisions of the *Treaty of Asunción*, and as an indispensable condition in the deepening of the integration process. “The AEC is based on the common MERCOSUR nomenclature and defined using an aliquot applicable to each tariff item (8 digit). MERCOSUR’s common nomenclature is made up of approximately 9,000 tariff items, which includes varied tariff ad valorem, in general, from 0% to 20%, according to the product category and the existence or not of regional production.”⁹

⁹ MERCOSUR, 2013

In this manner, foreign trade between States is regulated by making use of the common external tariff which marks percentage trade taxes, thus fulfilling the second objective of the Treaty.

3. The coordination of macroeconomic and sectorial policies among States are: foreign commerce, agricultural, industrial, fiscal, monetary, foreign exchange and capital, services, customs, transport and communications, and other agreed upon policies, in order to ensure adequate conditions of competition between member States.

This objective, which has been in place since 1995, seeks to compensate the economic differences in such a way that certain members receive different treatment when applying compensatory policies.

4. The commitment of States to harmonize their legislation in relevant areas and to achieve a strengthening of the integration process.

This decision was unanimous within the entity because the States exercising their right of will accepted the idea of the harmonization of internal policies, thus fulfilling the commitment to make the best decisions for the region. One of these policies was the free movement of citizens of MERCOSUR within the Member countries, adopting as well a common passport of MERCOSUR which certifies their free movement within the bloc.

This study agrees with the importance of the four main objectives of MERCOSUR which cover relevant issues such as: the system of macro-economic policies, the common external tariff, and

regional integration. In this manner, States form part of the entity and prospective members can be assured that MERCOSUR will promote its objectives without prejudice.

1.3 Members of MERCOSUR

The full members of the *Mercado Común del Sur* are the Argentina Republic, the Federative Republic of Brazil, the Republic of Paraguay (suspended entity), the Eastern Republic of Uruguay and the Bolivarian Republic of Venezuela. Bolivia is currently in the process of accession.

MERCOSUR economies are diversified with different potentials that complement the entity, therefore it is necessary to undertake an individual analysis of the five full members.

1.3.1 Argentina

The Republic of Argentina is a South American nation, representative of democratic freedom and a founding member of MERCOSUR, supporting a population of 42,610,981 people (as of July 2013). Its strategic position in the Southern Cone, and its productive matrix, makes Argentina one of the most important powers in Latin America, considering its total purchasing power of four hundred billion dollars, as well as it being the 20th largest economy in the world (World Bank, 2013). Argentina is an excellent agro-exporter, with a high middle-income economy. Argentina will emerge as a world power if it continues its current economic growth pattern.

According to the Central Bank of the Republic of Argentina, the foreign trade of Argentina is very active; most relevant exports from Argentina to the world are: sunflower seeds, lemons,

soybeans, grapes, corn, tobacco, peanuts, tea, wheat, and meat. Their industrial development is based on the export of processed food, cars, durable consumer goods, textiles, chemical and petrochemical products, dairy products, flour, printing, metallurgy, and steel products.

Table # 5: Trade balance of Argentina in FOB U.S. Dollars.

Year	Exports	Imports	Balance
2007	55,980,308,489	42,524,479,238	13,455,829,251
2008	70,018,839,311	54,596,215,287	15,422,624,024
2009	55,672,096,515	37,146,074,431	18,526,022,084
2010	68,134,055,144	53,867,697,278	14,266,357,866
2011	81,956,902,571	70,728,474,012	11,228,428,559
2012	78,590,951,173	65,562,644,902	13,028,306,271

Source: (Central Bank of the Republic of Argentina, 2013)

By: Adrián Alvarado

As shown in the table above, exports exceed imports, which means balance of trade in Argentina has been positive in the last six years. However, Argentina is currently going through an economic and financial crisis; so much in fact, the government is placating the crisis to curb capital flight, including forcing exporters and investors to repatriate funds into dollars, implementing locks and controls on imports, etc. This is being done in order to hinder the reduction of annual growth in the country.

1.3.2 Brazil

Brazil is also a founding member of MERCOSUR and currently has the strongest economy in Latin American; second in the Americas and seventh in the world. (World Bank, 2013)

The success of Brazil is due to a stable policy where succeeding presidents of the country continue the work of his or her predecessor without limiting freedoms nor interfering with the private sector. The level of development, the active influx of increased capital, and multinational corporations are at the helm of the growing economy.

Exportation of agriculture products are based on coffee, soybeans, wheat, rice, corn, cane sugar, cocoa, citrus, beef, and mango. Success in exports is due to its vast territorial expanses, appropriate climate, and inexpensive labor.

The industrial sector of Brazil exports: textiles, shoes, chemicals, cement, wood, iron ore, Tin, steel, aircrafts, motor vehicles and parts thereof (with the exception of parts for machinery and equipment). (Central Bank of Brazil, 2013)

Table # 6: Trade balance in Brazil in FOB U.S. Dollars.

Year	Exports	Imports	Balance
2007	160,649,072,830	120,617,446,250	40,031,626,580
2008	197,942,442,909	172,984,767,614	24,957,675,295
2009	152,994,742,805	127,722,342,988	25,272,399,817
2010	201,915,285,335	181,768,427,438	20,146,857,897
2011	256,039,574,768	226,245,898,121	29,793,676,647
2012	242,579,775,763	223,154,429,315	19,425,346,448

Source: Central Bank of Brazil, 2013

By: Adrián Alvarado

As you can be seen in the above table, the trade balance in Brazil has been positive in the last six years, with balances exceeding \$20 billion; demonstrating the economic performance of this country. The high-level of industry is a very important factor for its development.

Brazil has the seventh highest GDP in the world; its foreign trade is very high and competitive which has been the basis for the economic stability of the country. Brazil is the most important participating country within MERCOSUR and the economic leader of the bloc.

1.3.2.1 Brazil power emerging

The stability of Brazil was proven in 2008 as it was one of the countries least affected by the global economic crisis. “It is recognized that the most developed and richest economies, as well as the least wealthy of the world, staggered through the financial turmoil that shook them, fell into recession and lost jobs in bulk. The Brazilian economy was a consistent example to the world of strength and maturity, due to it recovering sooner and more rapidly than other countries; while growing and continuing to generate jobs and income, even to the point of reaching a December 2009 international reserve of \$240 billion dollars, as well as reducing poverty: 20 million Brazilians out of poverty to be exact.”¹⁰ With those facts, one can see that the Brazilian economy is not weak, but rather ready to face new challenges and obstacles as could be seen in 2008-2009.

Another important factor is the rapid growth of the GDP in the last ten years that has positioned itself near the levels of Russia, India, and China as emerging powers with the fastest-growing economies in the world; all of this is also compounded by a strongly controlled inflation which is among the goals of the Government, as well as balanced public accounts that renewed Brazil into a dynamic, advantageous, and well positioned economy.

Eight million square kilometers of territorial expansion has given Brazil the chance to be a channel of distribution and a connector of trade with almost all South American countries except Ecuador and Chile with which it does not share a border. Brazil is a large importer of various goods and services, the main providers being its neighboring countries; in addition to the United

¹⁰ Infante, 2012

States, China, and the European Union. The reason Brazil is such a large importer is due to its stable economy, whose domestic consumption is equivalent to 40% of its GDP.

The industrial sector is the driving force of the Brazilian economy with industries that have become authentic multinationals that have entered the market to compete with the former leaders of the global economy. Brazilian companies started with a small structure without hastening their stage of evolution, and without relying on a financial system. According to Juvenal Infante, master in foreign trade, “companies such as *Banco Itaú-Unibanco*, *Petrobras*, *Embraer*, *Brasifoods*, *Vale do Rio Doce*, *Sabo*, *Gerdau*, *Votorantim*, *Coteminas*, *JBSFriboi*, and many others challenge transnational traditional leaders.” Today, Brazilian companies have a mission to sell quality goods and services in such a way that Brazil is known as a provider of optimal level products, in order to break the false idea that Latin American products are inferior on a global scale.

To achieve this international recognition, Brazil has decided to promote their brand since 2004. Even as early as 2010, Brazil has had a significant impact on a global level, projecting a newer and fresher image with technological advanced metropolises, hotel accommodations, luxury housing, and multi-level tourism for all economic statuses.

The importance of Brazil in the global economy was again proven when it committed to host the 2014 World Cup and the 2016 Olympic Games. According to the Brazilian Government, \$14 billion was invested for the World Cup, 98.5% of which was funded by the State. This investment included stadiums, hotels, infrastructure, roads, and general improvements in the 12

cities that will host this great event. It should be noted that in recent months, the country has been divided between opponents and supporters of this event, giving the Government a large responsibility to appease both parties.

Currently Brazil is an attractive, new, and safe market that is taking over, little by little, the world market. Currently, for MERCOSUR, Brazil is a huge asset since it is the country with most to give; but at the same time differences with Paraguay are for example increasingly impactful economically, implying even further work for members of the trade union.

1.3.3 Paraguay (suspended)

This country member and co-founder of the *Mercado Común del Sur* is located in the center of South America and despite not having maritime boundaries it does connect with the Atlantic Ocean through the Paraguay and Paraná rivers, which has port connectors. Paraguay, despite having a geographical extension of 406,752 km², is divided into Western and eastern Paraguay, with the latter being the most populated and having greater economic participation.

The Republic of Paraguay currently has the lowest economy of South America with a GDP of 25 billion dollars, just beating Suriname and Guyana. The level of poverty in the country is really high; about 35.7% of the population, a problem that can be attributed to constant droughts that affect the overall production of the country. (World Bank, 2013).

Paraguay depends on the export of raw materials and agriculture, such as: cotton, sugar cane, soy, corn, wheat, tobacco, tapioca, fruits, vegetables, beef, pork, eggs, milk, and wood. On the

other hand; although the industry in Paraguay is not very diversified this country exports refined sugar, cement, textiles, beverages, wood products, steel, metallurgy, and electricity. (Paraguayan Chamber of Exportation, 2013)

Table #7: Trade balance of Paraguay in FOB U.S. Dollars.

Year	Exports	Imports	Balance
2007	2,817,560,576	5,538,553,182	-2,720,992,606
2008	4,463,165,984	8,505,981,871	-4,042,815,887
2009	3,161,109,319	6,496,909,683	-3,335,800,364
2010	4,531,966,109	9,399,740,922	-4,867,774,813
2011	5,518,699,164	11,500,653,790	-5,981,954,626
2012	5,086,811,609	10,690,110,358	-5,603,298,749

Source: Central Bank of Paraguay, 2013

By: Adrián Alvarado

As shown in the above table, the economy of Paraguay has a negative trade balance with an average of five billion dollars in the period 2007 – 2012, this completely affects the economic development of the country and highlights its production deficiency; Paraguay's weaker economy is more dependent on MERCOSUR.

It should be noted that the export of electricity in Paraguay is very important. The main source of electricity is generated by the Itaipú dam, the largest in the world. In fact, hydroelectric power is the largest export in the country's industrial sector.

1.3.4 Uruguay

The Eastern Republic of Uruguay is one of the founding countries of MERCOSUR, it is a country with a relatively small population that reaches approximately 4 million inhabitants but the standard of living of its population is high given that it is the country with the lowest rates of illiteracy in Latin America according to the United Nations. Its economy is stable, with the middle class representing 53% of the population. Its GDP of \$ 49 billion is relative to its population. (World Bank, 2013)

Economically and politically, Uruguay is a stable country. The economic and political capital is Montevideo which houses 51% of the population of the country. Uruguay's foreign trade is also diversified.

Uruguay exports are based on: soybean, rice, wheat, beef, dairy products, fish, wood, and cellulose. Its industrial sector has been developed to the level of exporting processed food, electrical machinery, transportation equipment, petroleum products, textiles, chemicals, and beverages. (Central Uruguay Bank, 2013)

Table #8: Trade balance of Uruguay in FOB U.S. Dollars.

Year	Exports	Imports	Balance
2007	4,517,549,425	5,292,423,225	-774,873,800
2008	5,941,894,999	8,601,565,424	-2,659,670,425
2009	5,404,763,196	6,529,291,411	-1,124,528,215
2010	6,724,872,118	8,134,604,718	-1,409,732,600
2011	7,962,989,759	10,166,580,840	-2,203,591,081
2012	8,693,228,358	10,680,031,709	-1,986,803,351

Source: Central Uruguay Bank, 2013

By: Adrián Alvarado

According to the chart, the trade balance of Uruguay is evidence that imports exceed exports with an average of two billion dollars in the past six years, however the economy of Uruguay has improved because of their participation in international trade. One of the objectives of the Government is to further reduce imports and increase exports through greater involvement in the industrial sector.

Uruguay, even though it is not a large country, is an organized and stable nation, as well as an important participant in MERCOSUR.

1.3.5 Venezuela

Venezuela is the newest full member of MERCOSUR, democratically elected by the members of the entity in August of 2012, with the exception of Paraguay's vote due to its suspension. Currently, Venezuela has a term of three years to adapt to the rules of the entity starting with the adoption of the nomenclature of the organism, then the State will adopt the common external tariff of MERCOSUR.

The economy of Venezuela is largely made-up of an upper-middle due to its active export and refining of petroleum and natural gas, representing 80% of its exports. Venezuela's GDP is currently about \$382 billion. (World Bank, 2013)

Venezuela's participation in Latin American has been very important over the last decade, specifically in its stance against the dependence of imperialism; policies which MERCOSUR supports; this is the main reason for Venezuela's accession into the entity.

Table #9: Trade balance of Venezuela in FOB U.S. Dollars.

Year	Exports	Imports	Balance
2008	83,477,843,058	47,450,067,587	36,027,775,471
2009	57,599,456,123	41,165,265,852	16,434,190,271
2010	65,741,345,765	38,507,345,190	27,234,000,575
2011	92,807,215,519	46,781,523,669	46,025,691,850
2012	97,336,734,286	59,305,197,573	38,031,536,713

Source: Central Bank of Venezuela, 2013

By: Adrián Alvarado

According to the chart, Venezuela's trade balance is positive due to vast oil exports which account for 80% of their GDP. Other exports of Venezuela, although much lower than petroleum, are agricultural, such as: sorghum¹¹, sugar cane, rice, bananas, vegetables, coffee, beef, pork, milk, eggs, and fish. In the industrial sector: petroleum, building materials, processed food, textiles, iron, steel, aluminum, motor vehicles, chemicals, and paper products. (Venezuela National Institute of statistics, 2013)

It should be noted that Venezuela's economy is totally dependent on crude oil; this is why there are many opponents to the policies of the Government.

¹¹ Definition of sorghum: A grass species native to the tropical regions of East Africa. It is cultivated in Europe, America and Asia as grain for human and animal consumption. Source: (Botany Online, 2013)

MERCOSUR has created harmony and continuity with its members throughout the years, showing the world that they have been able to create an economically stable entity; however, MERCOSUR needs to have greater control of new and future members with the objective of avoiding economic, political, and social conflicts that may affect its structure.

1.4 Organization of MERCOSUR

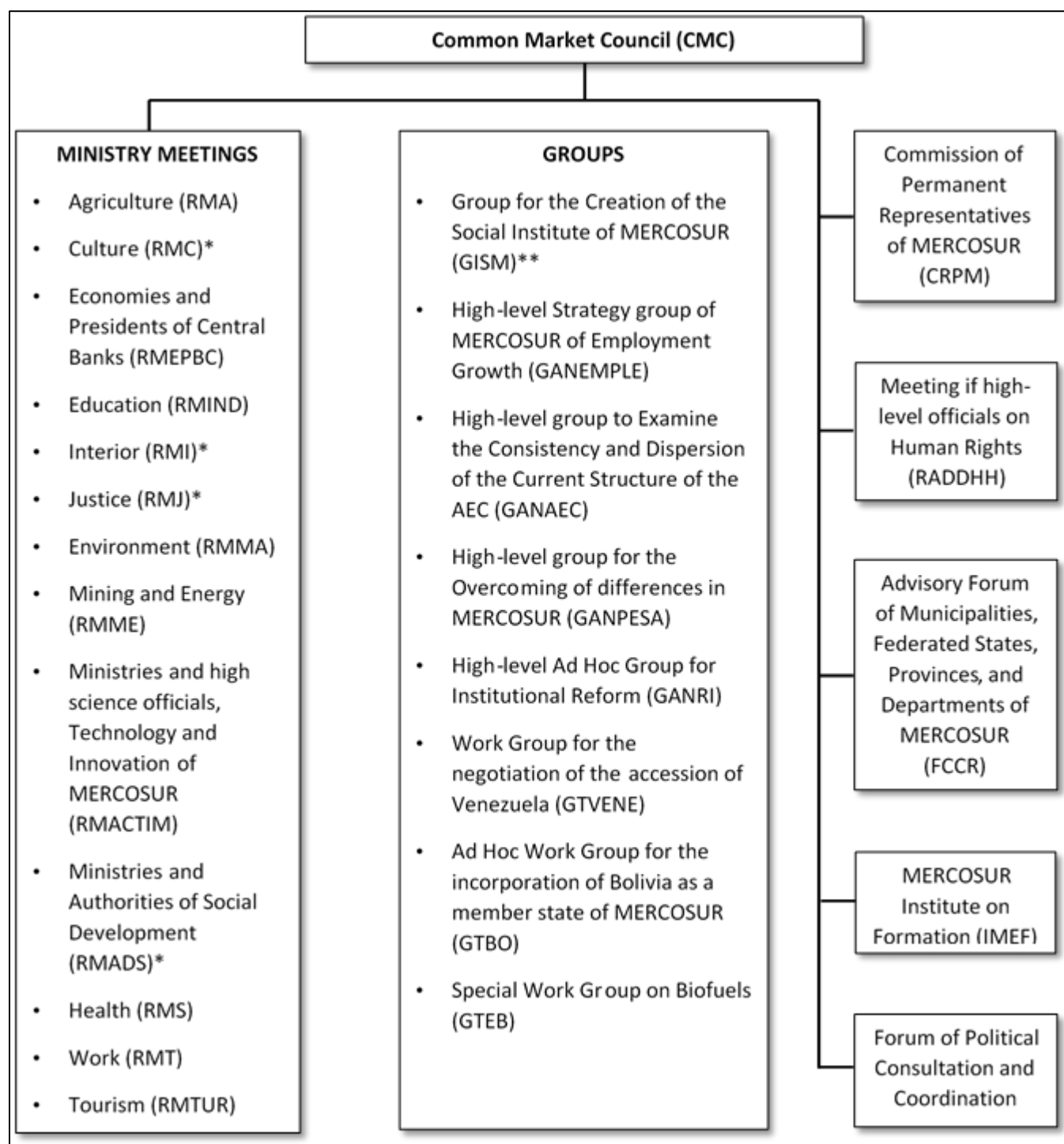
One of the reasons why the *Mercado Común del Sur* has been successful in achieving goals is due to the internal organization that has been developed over decades in a joint and integrated manner.

Common Market Council (CMC)

The CMC is the most important part of MERCOSUR, whose jurisdiction covers the political leadership of the integration process and decision making to ensure the fulfilment of the objectives set by the *Treaty of Asunción*.

The CMC is composed of Ministers for Foreign Affairs and Economic Ministers, depending on the State member. The Presidency of the Council of the CMC uses a rotation system, in alphabetical order, for a period of six months. The State party in the exercise of the Presidency will use the designation President Pro Tempore, which also applies to the other parts of MERCOSUR. (MERCOSUR, 2013)

Image # 1: Common Market Council (CMC)



Source: MERCOSUR, 2013

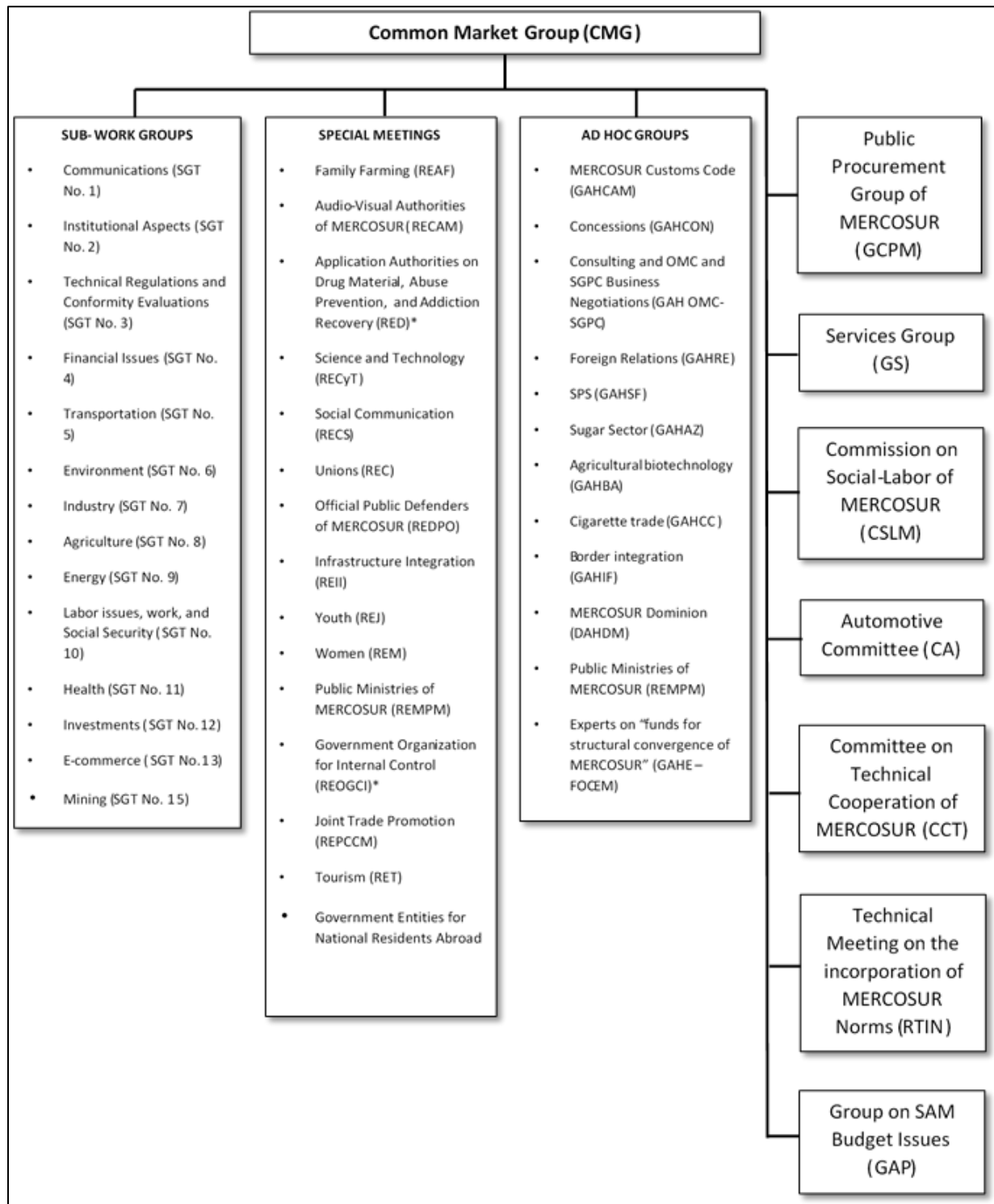
Common Market Group (CMG)

The CMG is the executive body of MERCOSUR responsible for ensuring compliance with the *Treaty of Asunción*, protocols, and annexes which comply with the rules of MERCOSUR. The CMG also ensures compliance with the agreements within the CMC work programs that ensure progress towards the establishment of the common market and trade with outside countries, provided they have the approval of the CMC.

The Common Market Group is made up of eight members per country (four owners and four alternates). These members must represent the following public bodies:

Ministry of Foreign Affairs, Ministry of economy or their equivalents (industry, trade or economic coordination areas) and the Central Bank. (Republic of Argentina Ministry of Foreign Affairs, 2013)

Image # 2: Common Market Group

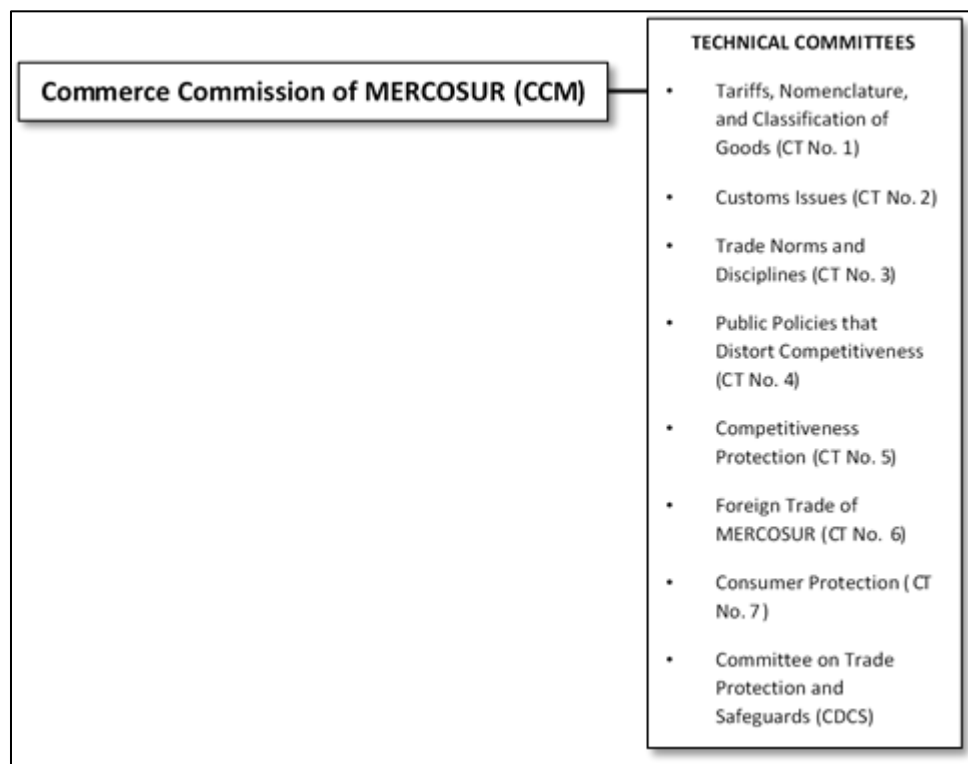


Source: MERCOSUR, 2013

MERCOSUR Trade Commission

This is the body responsible for ensuring the implementation of the instruments of common trade policies agreed upon for the proper functioning of the Customs Union, commerce, politics, public policy, competition, external trade statistics, consumer protection, and safeguards. It is also responsible for the follow-up and review of the issues and matters relating to the common commercial policy, trade intra-MERCOSUR, and with outside countries. (Republic of Argentina Ministry of Foreign Affairs, 2013)

Image # 3: MERCOSUR Trade Commission



Source: MERCOSUR, 2013

MERCOSUR Parliament

MERCOSUR Parliament works for their constituents, its main objective is to achieve participatory integration where people can comment and give their views within their official communication networks. Meetings of the Parliament are mostly public, in order to demonstrate transparency and commitment to the entity.

The Parliament has a Board of Directors, responsible for driving legislation and administrative services, as well as permanent secretaries. (MERCOSUR Parliament, 2013)

The Parliamentary Secretary “fulfils the tasks of management and advice of parliamentary activities: ordinary, extraordinary sessions, and Protocol; Permanent and special committees meetings; and public meetings. It is also responsible for the documentation of the Parliament, daily session, library and archive. The Administrative secretariat is responsible for the administration of the Parliament and its functions: finance and accounting management, official correspondence shared with the Secretariat parliamentary, computation, and other administrative tasks inherent in the Parliament.”¹²

In this way, Parliament can better control their tasks and disseminate its goals, so that the population will become faithful eyewitness to the integration and development of MERCOSUR’s procedures.

¹² MERCOSUR Parliament, 2013

This study very much agrees with the internal structuring of MERCOSUR, which is broken down on the basis of the need for the members of the bloc. This structure controls and establishes the regulations and changes thereof for the future of MERCOSUR.

1.5 Trade Integration

1.5.1 Stages of Integration

The stage of the commercial market integration of MERCOSUR begins with a greater complementarity between the economies of the entity; empowering governments with the aim of institutionalizing integration through legislation and agreements, reaching its maximum extent through the harmonization of macroeconomic policies of the countries involved. Under these parameters, MERCOSUR guarantees compliance with the *Treaty of Asunción*, the customs union, and the common external tariff that has been managed by the Common Market Council for 22 years.

The next phase of integration of MERCOSUR is to cover business opportunities, coupled with good relations with outside countries, with the goal of evolving economically and technologically through the treaties that have been formulated during negotiations; this is why MERCOSUR is starting to participate with other economies to take advantage of all the benefits arising from these agreements.

On June 26, 1996, the *Mercado Común del Sur* and the Republic of Chile decided to sign the MERCOSUR-Chile Economic Complementation Agreement, which entered into force on

October 1st of the same year. This Treaty was formed due to the excellent political and economic relations between MERCOSUR and Chile. The objectives of this treaty are:

“To establish the legal and institutional framework of cooperation and economic and physical integration that contributes to the creation of an extended economic space aimed at facilitating the free movement of goods and services and the full use of production factors. . .Form a free trade area between the parties contracting within a maximum period of 10 years, through the expansion and diversification of trade and the elimination of tariff and non-tariff restrictions affecting mutual trade. . .Promote the development and use of the physical infrastructure, with special emphasis on the establishment of bi-interconnections. . .Promote and encourage mutual investments between the economic agents of the signatory parties.”¹³

Thus, MERCOSUR maintains involvement with the Chilean economy, a strategic country for the trade bloc, with an exchange of technology that benefits all signatory States.

On April 16, 1998, MERCOSUR and the *Comunidad Andina* (CAN) signed a free trade agreement with several trade benefits between the two parties. According to ECLAC, trade between both countries showed a positive trend during the past decade. Exports of the CAN to MERCOSUR countries grew by 106% between the early 1990s and the first years of this decade, while sales of MERCOSUR to the Andean Community increased 93% over the same period. (CEPAL - Economic Commission for Latin America and the Caribbean, 2012). Participation in this treaty is currently very poor, with declining exports by the CAN due to Peru's and

¹³ World Bank, 2013

Colombia's free trade treaties with the United States, as well as the lack of participation of Venezuela.

On July 5, 2002, at the Summit of the Presidents of MERCOSUR, the agreement of Economic Complementation with Mexico and MERCOSUR was signed in Argentina which would act as a treaty of free trade in goods and services. This treaty has grown with positive results in the automotive sector; the treaty still remains in force today.

MERCOSUR, seeing the need to enter new regions, decided to sign a treaty of economic freedom with India on June 17, 2003, an important step toward the competitiveness of MERCOSUR. This treaty includes tariff preferences for 450 products of MERCOSUR and 452 products from India.

Later in 2004, at the G20 summit, a free trade agreement with the Arab Republic of Egypt was negotiated with a term of 10 years, including tariff preferences on more than 90% of market products.

The *Mercado Común del Sur* in the last 5 years has developed agreements with countries including Cuba in 2006, Israel in 2007, and Palestine in 2011. These agreements show the process of evolution in the growth of MERCOSUR. (Economic America, 2013)

The trade integration that has taken place over the past few decades is a reflection of the structure of the entire entity that has shaped its business development; starting with its

organization and internal control, followed by treaties and agreements with the rest of the world. It is for this reason that this study emphasizes the involvement of MERCOSUR in the area of international economic integration, a fundamental basis for its successful continuity.

1.5.1.1. Trade liberalization and Policy Coordination

MERCOSUR advanced in two stages in its formation of economic policies. The first was an automatic and gradual decrease of tariff and non-tariff trade barriers; the second was the harmonization of macroeconomic policies that required negotiations and commitments of various governments. This plan, judging by the concrete progress in the harmonization of policies, is expected to reach a development of zero tariffs, no non-tariff barriers, no exceptions lists, and no non-tariff barriers on policies that restrict imported access to different markets; such as a list of defined exceptions products that protect the most sensitive tariff items (Customs of Ecuador SENA, 2013). However, many national policies still need further harmonization treatment.

Within the process of the release of policies of MERCOSUR is the proposal for massive regional integration. The MERCOSUR economic research network, under the guidelines and initial policies of the entity, has the idea of strengthening relationships and increasing integration into the world economy, all the while maintaining the link between outside States, observer States, and the States associated with the *Mercado Común del Sur*.

MERCOSUR network diversifies its specific objectives as:

1. “Promote, coordinate, and develop joint studies on issues related to the integration process, a rigorous and independent perspective.”
2. “Highlight the role played by the economic, independent research in the public debate on the integration process, in order to balance political and sectorial visions which often dominates the debate.”
3. “Create a space for open political debate on the policies for MERCOSUR, and how the entity responds to changes in the international context, and/or other challenges and common problems of the Member countries.”
4. “Identify the priority topics of research within the region and carry out comparative studies on the basis of common methodologies which help to create a regional vision of the problems facing the countries of Latin America, in view of its need to integrate into the world economy under conditions which could help to meet their developmental objectives.”¹⁴

Under this context, the *Mercado Común del Sur* plans its processes in such a way that all members benefit. The entity will not make a decision without first analyzing the cost-benefit of the negotiations. The space for debate and participation is very important because one should listen and consider the positions of all members and thus make a joint decision as a bloc; at the same time, caring for the environment with alternative energy, coupled with sustainable development. Productivity, business development, and innovation are a sure way to an industrialized economy, all of which are future projects of the organization.

¹⁴ MERCOSUR Network, 2013

The field of integration has evolved the most in MERCOSUR due to the development of the regulatory body and ideals brought forth since its inception. The network of economic research guarantees the fulfilment of its objectives, with the participation of the members of the bloc. This study believes that more publicity and application of the MERCOSUR network would be the key to further development for the entity, where the associated States and outside States strengthen trade relations.

1.5.1.2 Asymmetries

1.5.1.2.1 Economic

Since its inception, the *Mercado Común del Sur* was formed as an ideological, regional bloc where members would not focus on the differences between them, but in a homogeneous thought that would be the basis for community development. Within MERCOSUR, there is difference in economic participation among its members, mainly due to the differences in the gross domestic product (GDP) of each country.

Table # 10: Comparison of GDPs in U.S. Dollars of full members of MERCOSUR in 2012

States	GDP 2012
Argentina	474,865,096,196
Brazil	2,252,664,120,777
Paraguay	25,502,060,502
Uruguay	49,059,705,190
Venezuela	382,424,454,340

Source: (World Bank, 2013)

By: Adrián Alvarado

Brazil is the most powerful country of the *Mercado Común del Sur*, with the seventh most powerful economy in the world and highest GDP of MERCOSUR, due to its high degree of industrialization and its vast internal workforce. Second is Argentina, the next emerging power according to the World Bank. The economy of Argentina is strong but it has a long way to go to be able to support future industrialization development. Third is Venezuela with a high GDP, due mostly to its oil exports. Fourth is Uruguay with a stable economy and a GDP that is not very high due to the proportionality with its population and productive matrix. Lastly is Paraguay, MERCOSUR's weaker economy. This country is underdeveloped compared to the rest of the members.

Considering the *Mercado Común del Sur* is demographically, territorially, and economically asymmetric, it is important to understand the internal strengths and weaknesses in foreign trade

of each member State of MERCOSUR. Venezuela is not included; even though it has adopted the regulations and the common external tariff, it still has a term of three years before receiving full membership.

Participation of the full members of MERCOSUR:

Table # 11: Trade balance of each member with MERCOSUR in 2012 in FOB U.S. Dollars

Country	Exports	Imports	Balance
Argentina	99,970,581,993	106,725,777,793	-6,755,195,800
Brazil	128,175,379,857	97,342,808,180	30,832,571,677
Paraguay	12,753,719,742	21,831,326,537	-9,077,606,795
Uruguay	12,679,255,783	19,948,285,726	-7,269,029,943

Source: System of information analysis of foreign trade - MERCOSUR, 2013)

By: Adrián Alvarado

While analyzing the above table, one can see that high participation is in direct correlation with the power and economic development of each country. Brazil is the country with the most participation in the entity, not just by the number of exports but their industrial and technological development.

Imports from MERCOSUR member countries exceed exports, except Brazil. It is due to the regulatory compliance, and the implementation of the common external tariff, that such dynamic development within the bloc is achieved.

There are asymmetries in MERCOSUR, one of the biggest obstacles the entity faces. Since the adoption of policies must benefit all, this study agrees with the idea of working as a bloc, in order to contribute to better productivity and successful participation within MERCOSUR.

Conclusions, Chapter 1

In this chapter, an analysis of the history and structure of the *Mercado Común del Sur* was conducted which projected two important points. First, it was evident that MERCOSUR has a stable and well-structured regulatory body that has been changing over time according to the needs of Member States; showing internal stability and organization to make decisions.

Second is MERCOSUR's participation in international trade, which has made it the first economic power in Latin America to export more than \$300 billion worth of products to the world. Various international agreements, and over 50 commercial agreements, have been ratified with different countries and economic blocs, making it clear that South America is developing successfully, with MERCOSUR at the forefront of said development.

Finally, the study shows that MERCOSUR is successfully evolving since its inception in 1991. MERCOSUR has an obligation not to leave behind any member, to maintain its continuity, and at the same time require more participation. Thus, the incorporation of Ecuador would be a complement to the development of MERCOSUR.

Chapter 2. Ecuador and its relationship with MERCOSUR

The second chapter will comprise an analysis of trade and political relations of Ecuador with the members of MERCOSUR, and will discuss the requirements that Ecuador demands, and must meet, for accession into the bloc.

2.1 Economic Axis

The Republic of Ecuador formally stated its intent on becoming a member of the *Mercado Común del Sur* on May 5, 2013. President Rafael Correa, in his Saturday address, supported his position of putting into practice the principles of comprehensive development in Latin America. Upon this pronouncement, MERCOSUR congratulated and praised Ecuador, stating that it was a step towards the future of the Latin American Nations and that Ecuador is a country that complies fully with the profile of a member of the bloc.

Thus began the work of research, integration, and the application of the rules, guidelines, and agreements that Ecuador must undergo to be a full member of MERCOSUR, a process which is estimated will last approximately 10 to 12 months according to the Ecuadorian Government. For Ecuador to have a solid foundation, it is necessary to analyze the economic relationship it has with the members of *Mercado Común del Sur*, in order to find advantages and asymmetries; because unlike the European Union, MERCOSUR doesn't base its principles on economic homogeneity, it bases its principles on ideology.

2.1.1. Trade balance of Ecuador with regard to the members of MERCOSUR.

2.1.1.1 Argentina

Table # 12: Trade Balance of Ecuador with Argentina in FOB U.S. Dollars

Year	Exports	Imports	Balance
2007	84,024,420	345,436,174	-261,411,754
2008	105,487,759	458,071,700	-352,583,941
2009	107,867,144	454,573,729	-346,706,585
2010	124,320,899	501,096,833	-376,775,934
2011	162,711,011	483,701,078	-320,990,067
2012	186,608,122	414,442,098	-227,833,976

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

The exchange of Ecuador with Argentina has been very active and dynamic, Argentina being one of the leading providers to Ecuador. However, the balance of trade between Ecuador and Argentina is low in the past six years according to the chart. Exports of bananas, citrus fruits, cocoa, fish, cotton, cardboard, hats, and ceramic flooring have declined, compared to imported products from Argentina such as: iron or steel castings, plastic products, vehicles, pharmaceutical products, and confectionery - being the most important import commodity. (Trade Map, 2013) The lack of trade balance between Ecuador and Argentina is due to the

difference of industrialization and production of finished products, compelling Ecuador to improve its production and industrial development.

2.1.1.2 Brazil

Table #13: Trade balance of Ecuador with Brazil in FOB U.S. Dollars

Year	Exports	Imports	Balance
2007	30,279,363	661,723,709	-631,444,346
2008	42,580,798	877,964,780	-835,383,982
2009	41,429,439	638,206,928	-596,777,489
2010	56,885,016	978,681,264	-921,796,248
2011	95,214,422	933,178,029	-837,963,607
2012	133,026,878	898,591,182	-765,564,304

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

According to the table, Ecuador has a severely negative trade balance, exporting less than half of what Brazil exports. This is a clear example of the economic difference between these two countries; despite having agreements, continuous negotiations, and excellent diplomatic relations, Ecuador is not compensated for the asymmetry within the exchange of goods and services. On the other hand, Ecuador has had a breakthrough in the last two years where exports

increased to 133 million dollars and imports decreased to 898 million dollars with a difference of 35 million compared with 2011.

Foreign trade with Brazil has been based on the export of meat, wood, plastic products, and fruits such as cocoa and bananas; importation from Brazil includes: vehicles, rubber, iron materials, textiles, building materials, etc. (Trade Map, 2013)

2.1.1.3 Paraguay

Picture # 14: Trade balance of Ecuador with Paraguay in FOB U.S. Dollars.

Year	Exports	Imports	Balance
2007	963,631	9,199,863	-8,236,232
2008	2,493,791	34,967,048	-32,473,257
2009	2,023,397	21,625,490	-19,602,093
2010	1,669,357	20,639,205	-18,969,848
2011	2,201,947	8,350,565	-6,148,618
2012	3,385,733	4,430,690	-1,044,957

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

While Paraguay is the weakest of MERCOSUR, Ecuador maintained a negative trade balance; however, the two past years have improved. In analyzing the table, one can see that Ecuador is

developing its international trade, therefore it should continue in this manner so as not to falter against the other countries in the *Mercado Común del Sur*.

2.1.1.4 Uruguay

Picture #15: Ecuador trade balance with Uruguay in FOB U.S. Dollars

Year	Exports	Imports	Balance
2007	4,152,333	8,385,385	-4,233,052
2008	6,726,448	17,969,226	-11,242,778
2009	7,216,899	12,230,458	-5,013,559
2010	33,578,378	14,340,527	19,237,851
2011	56,520,788	11,801,159	44,719,629
2012	17,854,481	9,954,602	7,899,879

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

The international trade between Ecuador and Uruguay gives results in a negative trade balance; except for the last three years, showing increased competitiveness from 2010.

Ecuador based products such as fruits, vegetables, ceramics, plastic materials, and sugar were exported to Uruguay. Importation from Uruguay included: pharmaceutical products, wool,

textiles, meat, and lard. (Trade Map, 2013) The exchange between the two countries is good for future aspirations by exchanging similar products.

2.1.1.5 Venezuela

Table #16: Trade Balance of Ecuador with Venezuela in FOB U.S. Dollars.

Year	Exports	Imports	Balance
2008	691,000,00	2,526,000,000	-1,835,000,000
2009	534,000,000	199,000,000	335,000,000
2010	942,000,000	550,000,000	392,000,000
2011	1,474,000,000	955,000,000	520,000,000
2012	1,008,000,000	239,000,000	768,000,000

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

Trade relations between Ecuador and Venezuela show a favorable balance from 2009 until 2012. In the last year, Ecuador exported to Venezuela 1.008 million dollars and imported 239 million dollars, this left a positive balance for Ecuador of \$768 million. In the past three years, the exchange of Ecuador to Venezuela has been based in petroleum, oils, vehicles, chemicals, staples, and canned tuna. Ecuador in turn imported chemical products, manufactured metals, fuels, and machinery. (Trade Map, 2013) It has been advantageous for Ecuador to become a

primary supplier to Venezuela due to Venezuela going through a crisis of industrialization and its absolute dependence on oil.

The economic differences between members of MERCOSUR and Ecuador are dormant and require a treatment that will not affect the country's economy, which is the study supports the change of the productive matrix and the industrial development of Ecuador, in order to not fall behind the current full members of MERCOSUR.

2.1.2. Productive matrix

Ecuador, from the moment that the decision was made to become a full member of MERCOSUR reported, stated that its main task of development and evolution would be the change of the country's productive grid, meaning its productive matrix is to "shape how the society is organized to produce certain goods and services, and is not limited only to the strictly technical or economic processes, but it also has to do with the whole set of interactions between different social actors that use resources that have at their disposal to carry out productive activities. This set, which includes the products, production processes, and the resulting social relations of these processes, we call productive matrix."¹⁵

Under this concept, the change in the productive matrix aims to expand the range of Ecuadorian products and reduce the country's dependence in order to improve competitiveness and industrialization that Ecuador lacks. Another important task is to increase participation in

¹⁵ Ministry of Planning and National Development, 2013

international trade with finished products not only in oil, but raw materials and agricultural products.

According to Francisco Muñoz, director of the magazine *La Tendencia*, the change of the productive matrix refers to “the diversification of national production, sponsored by different economic sectors and variety of use values: the extractive, the industrial, and agribusiness.” It also includes the promotion of the commercial sector through the multiplication of markets for the export of Ecuador’s products, as well as the promotion of the tourism industry and biodiversity sectors. “This involves scientific-technological development through the proposed model: all effectively aimed at the change of matrix production, endogenous development and with the intention of reducing the weight of the traditional primary exporter economy of Ecuador.”¹⁶

Under this concept, Ecuador should make use of its own resources in such a way that the sum of technology and diversification of production achieves better industrial performance for the economy of Ecuador. At the same time, Fander Falconi, former Secretary of Planning (SENPLADES) concludes that “the agreement with MERCOSUR would ensure the selective export substitution i.e. endogenous development, the promotion of basic industry such as petrochemicals and steel to achieve certain production chains, and a major boost to scientific and technological development from the university model of the city of knowledge, *Yachay*.”¹⁷

Under this basis, Ecuador would receive technology not only from MERCOSUR, but from the scientific and academic foundations, thanks to the Millennium Education Project for training

¹⁶ Jaramillo, 2013

¹⁷ Jaramillo, 2013

new professionals, where professionals promote development and productive change in the country.

Among the many actions undertaken by the Ecuadorian government for sustainable change of their production model, there is a trade and investment agreement with the European Union which is a key tool to demonstrate and reinforce the economic model proposed by President Correa. Hence, trade relations would be strengthened for Ecuador while the foundations of an industrial development would be established.

Ecuador has the intension to develop its productive matrix together with a sufficiently developed technological and energy matrix that will sustain such development, at the same time introducing environmentally friendly projects; such as the *Villonaco* wind farm project, which is located in the province of Loja with 11 wind turbines, each with a maximum height of 100 m. This project is of great importance to diversify the energy matrix of Ecuador, using a generator of inexhaustible energy. (CELEC EP - Electric Corporation of Ecuador, 2013)

The project of a change in the country's productive grid would be medium and long term, taking all corrective and preventive measures of action, which must be held by all the institutions of the public and private sector. The population of Ecuador will bring about, and apply, this precious development through constant education, which will provide the knowledge that Ecuador demands.

This whole process of changing production matrix promotes accession into MERCOSUR; which in turn contributes technology, knowledge and direct, integrated international trade.

This study supports the Ecuadorian project, which will provide for development, technology, new sources of employment, education, etc. This plan will be the standard for comprehensive development in Ecuador and guarantee that the country will participate positively within MERCOSUR.

2.1.3 Requirements to enter MERCOSUR

The *Mercado Común del Sur* began with four initial members (Argentina, Brazil, Paraguay, and Uruguay) who were responsible for concatenating the treaties and resolutions to the rules of the entity, with the goal of forming a single structure able to self-regulate in economic and political areas, forming the basis of MERCOSUR's regional integration. Venezuela was the first country to request full membership into the *Mercado Común del Sur* apart from the four founding countries.

The full members of MERCOSUR issued a resolution detailing the requirements a partner must meet to finalize accession and become a full member.

The requirements are defined in six essential points as:

1. "The adhesion of the requesting country to the *Treaty of Asunción*, the *Ouro Preto Protocol* and *Olivos Protocol*."

2. “The adoption of the common external tariff of MERCOSUR by setting a timetable for convergence for its application (four-year term).”
3. “The adaptation of the agreement of Economic Complementation number 59, signed between the States parties of MERCOSUR and Ecuador, Colombia, and Venezuela, including the acceleration of the trade liberalization program and the extension of its coverage, the effects of the accession of the country to the agreement of Economic Complementation (ACE) number 18, signed by the States part of MERCOSUR.”
4. “Adoption of the norms of MERCOSUR, including standards in the process of incorporation.”
5. “Compliance with the international instruments concluded in the framework of the *Treaty of Asunción*.”
6. “The addition of the requesting country to the agreements concluded within the scope of MERCOSUR with outside countries, or groups of countries, as well as external negotiations.”¹⁸

These are the basic requirements that MERCOSUR imposes on the requesting country, in this case Venezuela, Bolivia, and Ecuador. There is the possibility of putting exclusive clauses on each country depending on their situation; in the same way, it is possible that the applicant countries, in this case Ecuador, can negotiate certain terms and demand requirements to reduce risk and eliminate asymmetries.

¹⁸ ABC Digital, 2005

2.1.4. Ecuador's requirements to enter MERCOSUR

Ecuador announced that the country would be part of MERCOSUR after complying with the requirements imposed by the members of the *Mercado Común del Sur*; and at the same time, Ecuador imposed requirements for full membership of the entity according to its economy production and currency, in order to negotiate their accession, instead of signing and ratifying an agreement that doesn't favor Ecuador's economy.

In a personal interview in the city of Quito, Director Cesar Montano Huerta, of Ecuador's multilateral trade negotiations, explains that prior to testing requirements, Ecuador asked MERCOSUR to negotiate prior to accession, pointing out needs and latent asymmetries that Ecuador has, specifically with Brazil and Argentina. These asymmetries are recognized by the Ecuadorian government, despite the great benefits that this country would receive by being part of the largest Latin America economic power.

Within the aforementioned asymmetries, Ecuador is in need of negotiation to reduce their risks in the field of foreign exchange safeguarding, specifically regarding the exchange-rate policy. As a country using the American Dollar, as opposed to the rest of the members of MERCOSUR who are depreciating their currencies to increase competitiveness and productive capacities, this is a dilemma that Ecuador faces.

Another asymmetry that is worth noting is the geographical disadvantage that Ecuador has compared to the members of MERCOSUR, since it would be the only full member that doesn't

share a border with any other member of the bloc. Thus, the costs of transportation and direct access to the entity would increase.

MERCOSUR is currently working on tariff relief, which would further prevent Ecuador from using a tariff policy in favor of their products. Therefore, strict bargaining would be necessary in order to protect the most sensitive Ecuadorian products, and their exporters, like Paraguay does with around 600 tariff items. (Montano Huerta, 2013)

After analyzing the three main asymmetries presented by Ecuador, the Ecuadorian government pointed out three essential requirements for accession into MERCOSUR:

The first requirement imposed by the Government of Ecuador is the implementation of flexibilities to the common external tariff, rules of origin, and sensitive products; in order to protect Ecuadorian production and increase competitiveness with the rest of the entity; as mentioned above, Paraguay manages a level of 600 tariff items above those allowed by the common external tariff, since that country's economy is dependent on agricultural products. Likewise, MERCOSUR should be more flexible with Ecuador since productivity does not reach the scope of Brazil and Argentina.

The second requirement proposed by Ecuador is investments that MERCOSUR would make in Ecuador as a full member. Institutions like *Banco del Sur* aim to finance projects with the members of *Mercado Común del Sur*; for example, the exchange of technology for hydro-electric power with Paraguay, or the interoceanic route project, *Manta-Manaos*.

The third, and most important requirement, is the safeguard exchange rate flexibility and more freedom to handle national tariffs, since Ecuador cannot devalue its currency. (Montano Huerta, 2013)

While analyzing the requirements of Ecuador into MERCOSUR, it must be noted that negotiation is vital to the accession of Ecuador to this regional bloc; economic differences between members are relevant and Ecuador would be at a disadvantage. The opening of *Mercado Común del Sur* is very important since it demonstrates commitment to integration with Ecuador, allowing Ecuador to evolve in the best way within the entity.

2.2 Political axis

MERCOSUR has fixed its principles, politically, on the aspect that members must share the same purpose, one being the regional integration and emergence as an entity. The four founding countries of the entity have maintained political stability since the creation of the *Mercado Común del Sur*, therefore prospective members are obliged to adapt to this continuity with the aim of maintaining harmony in the entity and not hinder the objectives.

MERCOSUR members have the right to pronounce their disagreement with the accession of a new country into the entity, provided that disagreement is informed and within the general rules. Such was the case with Venezuela, where Paraguay opposed to that country's entry claiming that it did not comply with the democratic guarantees within its government. Good relations among the members of MERCOSUR are vital for future business and positive performance.

Ecuador as a future full member of the *Mercado Común del Sur* must have the best relations with the five members of the entity, in order to ensure long-term success and adaptability.

2.2.1 Diplomatic relations between Ecuador and the members of MERCOSUR

2.2.1.1 Argentina

Ecuador and Argentina have kept the best diplomatic relations throughout its existence as republics, to such an extent that both countries have embarked on programs of trade and technological exchanges over the decades. According to Gloria Vidal, Ambassador of Ecuador to Argentina, the relationship of these two countries is outstanding, to such an extent that there is talk of continuing bilateral treaties between the two nations, with the intention of joining Ecuador with Argentina on the basis of good relations and effective cooperation.

The two nations are currently working on graduate student and PHD exchange programs which would contribute to the improvement plan of the productive matrix that Ecuador is undertaking. Also, intra-region tourism is one of the greatest achievements of these bilateral relations since they have increased the flow of tourists from Argentina to Ecuador and vice versa. However, there are potential fields in neglect, such as health and agriculture. Nevertheless, both countries could work together and be strategic partners since Ecuador and Argentina have similar regions. (Diplomatic region, 2013)

Gloria Vidal ensures that Ecuador is working on regional integration, one example being the excellent relationship with Argentina, which is vital for negotiations with MERCOSUR. This

study supports change to the productive matrix, not only on raw material, but also semi-processed and finished products.

2.2.1.2 Brazil

Ecuador diplomatic relations with Brazil have proved to be very beneficial for both countries, in such a way that not only economic, but diplomatic relations and Brazilian investment is paramount in Ecuador; Brazilian companies like *Odebrecht* operate in Ecuador's private and public sector.

According to Cândido Mendes, a political scientist with a doctorate in economics and governing; the importance of Ecuador in the Brazilian development is essential, starting from the need for Brazil to have the support of the Latin American Nations to continue to maintain the status as the most powerful country in the region. These linked relationships begin since the administration of former President Lula da Silva who laid the groundwork for the projects with Ecuador, this time President Rousseff has decided to continue this project of integration and bilateral development with the Republic of Ecuador.

Brazil is currently working with Ecuador in oil projects, maintenance of the Amazon and highway financing; however, the *Manta-Manaos* project is the most ambitious for relations of Ecuador and Brazil, which will allow integral, economic development in two aspects: strengthening the multimodal transport of goods, allowing an increase in competitiveness; and facilitate tourism development to improve the conditions of regional mobility. (*Ecuador Inmediato*, 2013)

2.2.1.3 Paraguay

Relations with the Republic of Paraguay had been stable until June of 2012 when the Paraguayan Senate decided to oust President Fernando Lugo, citing inefficiency in his governance. Immediately, the Ecuadorian government declared the act a coup and a violation of democratic guarantees, cutting relations with the country and withdrawing its ambassador from Asunción. This breakdown of relations between Ecuador and Paraguay lasted 10 months until the Paraguayan people elected, in a free and democratic manner, President Horacio Cartes; relations with Paraguay have restarted as of April of 2013.

Currently these two countries have good relations, including trade and technological cooperation projects. According to the Paraguayan Embassy in Ecuador, it is the first time that Paraguay is acting within the scope of South-South cooperation in order to encourage development and regional integration in South America. “The Republic of Paraguay cooperated with the Republic of Ecuador, giving the chance to several Ecuadorian technicians to participate in the first and second phase of internships in the bi-national hydroelectric plant *Itaipú*.

Likewise, an Ecuadorian delegation, the Council of Citizen Participation and Social Control, traveled to the city of Villarrica, Paraguay, in order to participate in an internship in the field of “E-governance,” implemented by the municipality.

Similarly, Ecuador has cooperated with Paraguay in the participation of a delegation of officials from the national Chancery who received training in the system of the management

documentary, QUIPUX, at the headquarters of the Ministry of Foreign Affairs, Commerce and integration of Ecuador. “Such training was related to areas of information, finance, file documentation, etc.”¹⁹

In this context, one can see Ecuador and Paraguay seek development in a comprehensive manner in which good relations and cooperation in exchanges of knowledge is the basis of these bilateral relations. Ecuador is working with Paraguay in a dynamic and reciprocal manner which will surely heed good results in the medium and long term. Not only is Paraguay a strategic partner in alternative energy technology, but a full member of MERCOSUR, which is a plus towards the integration plan of Ecuador into *Mercado Común del Sur*, where it is demonstrated that Ecuador is a country that is acquiring training in order to deliver tangible and sustainable tools to MERCOSUR.

2.2.1.4 Uruguay

Relations with Uruguay are very beneficial for both countries since trade is balanced and diplomatic relations between Ecuador and Uruguay have remained positive over the years; meetings of respective Foreign Ministers show positive results and plans to develop mutual support and cooperation. Although Uruguay is a small country, projects in development and industrialization are consistent.

“They agreed on various aspects related to the reforms to the Inter-American Commission on human rights at the last summit between foreign ministers in April of 2013. For example, they agreed to promote the change of venue of this body to a country that has ratified the American

¹⁹ Ministry of Foreign Affairs, Embassy of Paraguay, 2013

Convention on human rights or *Pact of San José*, as well as the importance of strengthening the different rapporteurs. Uruguay also pledged to send a high level representative to the II Ministerial Conference of States, part of the *Pact of San José*, which will be held in Cochabamba (Bolivia) on May 14, 2014. Uruguay also committed their support to Ecuador around possible entry into the *Mercado Común del Sur* (MERCOSUR). Almagro and Patino also emphasized the need to move forward concerning the *Banco del Sur*.²⁰

Ecuador and Uruguay combine their resources to reinforce the policy of integration and development in the area of human rights and economic stability in both countries. Uruguay adamantly supports Ecuador's entry into the *Mercado Común del Sur*.

2.2.1.5 Venezuela

Diplomatic relations between Ecuador and Venezuela have been high since Hugo Chávez became president, defining Ecuador as a strategic supporter and Latin American brother. Since Rafael Correa came to power in Ecuador, bilateral relations with Venezuela intensified to the point of signing 114 treaties, paving the way for economic and trade cooperation through 40 trade agreements.

The priority areas of cooperation between Ecuador and Venezuela have been divided into six groups:

²⁰ Ministry of Foreign Affairs and Human Mobility, 2013

1. “Axis of Social sovereignty: projects or agreements in order to make progress in areas such as cooperation in matters of security and social assistance, health, cultural, migration issues, among others.”
2. “Axis of sovereignty of knowledge: projects in order to make progress in promoting the generation and production of knowledge, promote scientific and technological research, and enhance ancestral knowledge.”
3. “Axis of energy sovereignty: projects which have been significant achievements and a considerable boost to the development of energy issues in the context of bilateral relationship, including the promotion of energy sovereignty through association contracts between PDVSA and PETROECUADOR.”
4. “Axis of productive sovereignty: projects or agreements which have advanced, thus promoting the development of the factors of production, promotion of policies for the promotion of national production, guarantee food sovereignty, and the generation of employment and added value through cooperation in promoting the development of popular and solidary economy companies and community of agro-industrial development.”
5. “Financial and commercial sovereignty: projects aimed at establishing trade agreements that promote the improvement of disadvantaged social conditions; in addition to boosting the construction of a new international financial framework.”

6. “Axis of sovereignty of security and defense: projects in order to establish cooperation in the military-technical field, prevention and suppression of illicit drug trafficking, as well as the development of joint activities in the Antarctic.”²¹

In this context, the objectives of the cooperation between Ecuador and Venezuela are based on community development. Venezuela maintains Ecuador as its ally based on their policies, and political and economic objectives, such as the development of knowledge, obtaining technology, social welfare, etc. However, the absolute dependence on oil has produced a negative trade balance for Venezuela with respect to commercial exchange with Ecuador. These fruitful relations with Venezuela are very important for Ecuador since in positioning itself as a full member of the *Mercado Común del Sur*.

This study emphasizes Ecuador’s relations with the members of the *Mercado Común del Sur*, since these relationships are more reason for Ecuador to be part of this economic entity, where it can fortify its position as an ally of each of the members of MERCOSUR. In the same way, these good relations may intensify various international agreements, beneficial to both parties.

2.3 Cooperation projects in Ecuador with members of MERCOSUR

2.3.1 Route Manta-Manaos

Within the most important plans of cooperation is the route project *Manta-Manaos*, which includes making a Pacific-Atlantic connection through the port of Manta in Ecuador, and the Manaos port in Brazil. The plan of Ecuador, once it is a member of MERCOSUR, is to use

²¹ Ministry of Popular Power for Foreign Affairs, 2013

investment from *Banco del Sur*, and MERCOSUR convergence funds, to finance projects within the entity.

The primary objective of this connection is to form an interoceanic corridor that an Asia-Pacific trade with Brazil through the port of Manta in Ecuador, this procedure would work starting with the arrival of the cargo at the port of Manta, followed by ground transportation to the port of Orellana and finally by river to Manaus, Brazil. The benefits of reducing trade costs and time through this project are of great importance. According to professional estimates of the Governments of Brazil and Ecuador, transport from the port of Manta to Port Providencia in Orellana can be covered in two days, and in ten days the cargo arrives at Port Providencia in Manaus.

This project will respond to latent cost reduction needs by geographic distance and obstacles of penetrability. Similarly the project promises benefits for underserved areas which will have access to the extensive list of products that will run on the entire route.

The port of Manta is strategic for the whole project since its position in the Center of Ecuador increases its accessibility to powerful Asian markets willing to use the Manta-Manaos interoceanic alley. Tourism development is one more goal to improve regional mobility conditions. The inhabitants of South America and the world can more easily and securely access the riches of the Amazon region of Latin America. (Economic America, 2013)

The *Manta-Manaus* project route will create new business opportunities with Asian markets and the rest of the world, just another reason for Ecuador's accession into the *Mercado Común del Sur*.

2.4 Ecuador trade balance with MERCOSUR

Table # 17 Ecuador trade balance with MERCOSUR

Year	Exports	Imports	Balance
2007	119,419,747	1,024,745,131	-905,325,384
2008	157,288,796	1,388,972,754	-1.231,683,958
2009	158,536,879	1,126,636,605	-968,099,726
2010	216,453,650	1,514,757,829	-1,298,304,179
2011	316,648,168	1,437,030,831	-1,120,382,663
2012	340,875,214	1,327,418,572	-986,543,358

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

According to the table, Ecuador-MERCOSUR exports have gradually increased over the past six years, however, exports are far below imports resulting in a negative trade balance for Ecuador. Exports were based on products such as mineral fuels, precooked meat, fish, crustaceans, mollusks, fruits, fats and animal oils, motor vehicles, metallurgy, etc. Ecuador is still a primary

exporting country, however its industrialization process is advancing in a dynamic way by what can be seen in its exports.

As shown in the table, imports from Ecuador to the *Mercado Común del Sur* has remained in a linear manner in the past 6 years, where amounts exceeding one billion dollars per year are imported. MERCOSUR is within the three major suppliers of Ecuador. Products with more impact on imports of Ecuador are heavy machinery, vehicles, minerals, pharmaceutical products, textiles, etc. Therefore, Ecuador presents a lack of industrialization which is undergoing a productive matrix change with the aim that Ecuador can tie the production of finished products with members of the bloc.

2.5 Incidence in foreign trade of Ecuador-MERCOSUR

2.5.1. Business scope

Ecuador has evolved in trade with the members of MERCOSUR. Bilateral agreements with Argentina, Brazil, Paraguay, Uruguay, and Venezuela have increased gradually, benefiting the Ecuadorian economy.

Ecuadorian products are highly sought after in Brazil; mostly tuna, ceramic tile, canned fish, candies, plastic, etc. Ecuadorian entrepreneurs have seen an opportunity to participate in Brazilian fairs like *Super Rio Expo Food: Feria de Alimentos y Bebidas en Brasil*, which has exhibitors from around the world. (*Portal Ferias*, 2013)

Trade relations with Venezuela are very beneficial for Ecuador, having a positive trade balance with Venezuela that exceeds 700 million dollars; however, trade agreements of Ecuador with Venezuela have allowed both countries to receive compensation, for example social programs have helped many poverty stricken sectors.

One of the most important trade agreements is the agreement of Economic Complementation No. 59 which was ratified in October 2004 by the all MERCOSUR members and the members of the Andean Community of Nations (CAN). This netting agreement consists of a regulation which is based on preferences granted by MERCOSUR to the CAN, and vice versa, with the objective of maintaining fair and dynamic trade in the region. Topics such as “regime of origin, safeguards, special measures for agricultural products, subsidies, sanitary and phyto-sanitary measures, technical standards, and dispute resolution are contained in annexes.”²²

However, according to the LAIA Secretariat, there are conflicts within Agreement No. 59 concerning sensitive products in the region, the interested parties have entered into negotiation to overcome these current obstacles. Although the document is complex and difficult to understanding for trade operators, the Secretariat seeks to give greater accessibility to the agreement in the best possible way.

Currently, the LAIA are working on tariff reductions for States, within the context of economic asymmetries between the countries of the region in order not to affect the national production of the Member. (LAIA General Secretariat, 2005)

²² LAIA General Secretariat, 2005

The Economic Complementarity Agreement is one more tool for Ecuador with MERCOSUR, in which over six thousand products were negotiated with each of the countries of the bloc; because Ecuador currently handles trade agreements with MERCOSUR, its accession would complement this development in the field of international trade.

2.5.2 Social Domain

International trade and positive political relations between Ecuador and MERCOSUR have contributed to bilateral and multilateral projects in order to help the people most in need in the region, complementing MERCOSUR's programs for the eradication of poverty in an effective and honest manner.

Ecuador has signed several agreements with the members of the *Mercado Común del Sur* to provide aid to the most needy in the region; Ecuador ratified the agreement called Axis of Social Sovereignty with Venezuela (Ministry of Popular Power for Foreign Affairs, 2013), which is dedicated to social inclusion by means of schools, kindergartens, academic workshops, etc. These projects are carried out through State programs of Ecuador and Venezuela where representatives periodically meet in each country and evaluate progress, in order to move forward in a sustainable way and not suspend its continuity.

In May 2013, Ecuador and Uruguay signed a bi-national agreement to increase knowledge in the field of control, prevention, and confrontation of drug trafficking; as well as preparation and better training for members of the police through an exchange of knowledge of best practices from both countries. (Agency public news of Ecuador and South America, 2013) According to

Ecuadorian authorities, this Convention with Uruguay will increase the value of these countries and will be of great importance for the security and evolution of their police departments, which is essential for an integral development based on honesty and good living.

Ecuador and Brazil have worked on many social cooperation projects. In August 2013, the Ministry of Social and Economic Inclusion (MIES), held a meeting with the delegation of the Ministry of Social Security (MPS) of Brazil, with the aim of overcoming the level of intervention in the social inclusion policies for entrepreneurs, small and rural workers, and the strategic initiatives of broadening the coverage of the Ministry of Social Security.

“The Brazilian delegation met with representatives of the Coordinating Ministry of Social Development to publicize the policy of social security that is implemented in Brazil. Also authorities of the National Ministry of Planning and Development (SENPLADES), networked the National Plan of *Buen Vivir* and the national strategy to combat poverty.”²³

These approaches in social projects are taking force in the region, Brazil being one of the pioneers in the field. Ecuador is also working in a dynamic way to maintain these medium and long term projects for the future of the most vulnerable sectors.

On September 03, 2013, Ecuador and Argentina signed a bilateral agreement to strengthen relations in the field of education by reviewing the progress of existing agreements and establishing new agreements on academic cooperation for higher education. By doing this, the two countries hope to strengthen the exchange of knowledge in order to provide the best training

²³ Public News Agency of Ecuador and South America, 2013

to professionals who use these conventions to return to their countries and contribute to the change of the productive matrix. (Agency public news of Ecuador and South America, 2013)

Good commercial relations have contributed to social cooperation projects in the region, where one can see Ecuador working with members of MERCOSUR in an accelerated and sustainable way with empirical proposals in favor of the population.

These approaches are essential for the accession of Ecuador into the *Mercado Común del Sur*; in this way, Ecuador can maintain the harmony that it has had with the trade bloc.

Conclusions, Chapter 2

This chapter covered the economic and political relationship of Ecuador and the five current members of MERCOSUR.

The participation of Ecuador in MERCOSUR is very relevant, which even goes beyond a simple business relationship. Ecuador has undertaken cooperation projects in exchange for technology, knowledge, and social welfare with the members of MERCOSUR, even before becoming a full member; this has intensified ties between MERCOSUR and Ecuador.

This excellent relationship has caused five members of MERCOSUR to compliment and fully support the incorporation of Ecuador, claiming that there is no reason that Ecuador could not be part of MERCOSUR.

The accession of Ecuador into MERCOSUR should be without controversy, unlike the accession of Venezuela where there was conflict with Paraguay.

MERCOSUR is ready to receive Ecuador, however Ecuador must still analyze the cost benefit that exists in order to make a final decision.

Chapter 3. Ecuador: Economics and International Participation

The third chapter will encompass an economic analysis of Ecuador and its participation in international trade, as well as its intervention in regional economic blocs.

3.1 GDP and sectorial distribution

The most common worldwide economic indicator is the gross domestic product (GDP), which serves as a reference to define a country's economic position and their participation in international trade. In Ecuador, there is a growing trend in its economy, which is reflected in its GDP of an average annual growth rate of 4.20% for the period 2007-2012; a significant event for the development of the economy of Ecuador and its intentions to cease oil dependency. (PRO ECUADOR Institute of Promotion of Exports and Investments, 2013)

Table #18: GDP and per capita GDP of Ecuador in U.S. Dollars

Year	GDP	GDP per Capita
2007	51,007,777,000	3,749
2008	61,762,635,000	4,474
2009	62,519,686,000	4,395
2010	67,513,698,000	4,777
2011	76,769,729,000	5,428
2012	84,039,856,000	5,469

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

As shown in the table, Ecuador's GDP has increased in the past six years, reaching a record \$84 billion in 2012, with a growth on average of \$8 billion per year. The per capita GDP for Ecuador in 2012 was \$5,469, representing a middle-income level. (World Bank, 2013)

Table #19: Sectorial distribution of GDP of Ecuador 2012 in percentages

Sectors that make up the GDP	Percentage
Agriculture, livestock, forestry, hunting, and fishing	9.19%
Mining and quarrying	13.46%
Petroleum refining	0.85%
Manufacturing (excluding oil refining)	11.71%
Electricity and water supply	0.71%
Construction	9.90%
Trade	11.01%
Transport	5.38%
Financial services activities	2.61%
Public administration	6.13%
Domestic service	0.33%
Other services	24.44%
Other elements of the GDP	4.27%
GROSS DOMESTIC PRODUCT	100.00%

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

The main sectors that make up the GDP of Ecuador are: mining and roads, construction, wholesale services, and trade. The retail and manufacturing industry is the most important in the economy of Ecuador; however, there is a lack in industrial development, a deficiency that the current government seeks to repair.

Although the GDP of Ecuador has experienced growth in the last six years, oil export remains the basis of the Ecuadorian economy; therefore, this study supports the plan of industrialization of Ecuador which will extend opportunities for the country and lessen its dependence on oil.

3.2 Foreign trade of Ecuador

Table #20: Ecuador's FOB trade balance in U.S. Dollars

Year	Exports	Imports	Balance
2007	14,321,316,452	12,895,241,120	1,426,075,332
2008	18,818,326,725	17,551,930,456	1,266,396,269
2009	13,863,055,367	14,071,449,245	-208,393,878
2010	17,489,923,158	19,278,702,367	-1,788,779,209
2011	22,322,353,120	22,945,794,452	-623,441,332
2012	23,763,704,114	25,596,129,785	-1,832,425,671

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

According to the table, Ecuadorian exports have gradually increased in the last six years with an annual growth rate of 11.74%, with the exception of 2009 since the economy of Ecuador was severely affected by the financial crisis of that year. As mentioned above, the economy of Ecuador shows an upward trend due to its exports of products such as: bananas, coffee, cocoa, rice, potatoes, *yuca* (cassava), banana, sugar cane, dairy products, fish, shrimp, balsa wood,

flowers, etc. (FEDEXPOR, 2013) The diversity of natural products that Ecuador offers is due to its privileged climate area; despite its small territorial size, Ecuador has a strategic geographical position which provides these products, recognized for their high quality and distinction.

In the industrial field, Ecuador exports: petroleum, food processing, textiles, wood products, and chemicals which are the most important in the list; however, the process of industrialization and finished products is advancing through the policies imposed by the Ecuadorian State to change and evolve the productive matrix.

Imports from Ecuador to the world show an almost symmetric relationship with exports, with an average annual growth of rate 15.50%, hence, Ecuador is importing more than it exports.

The most relevant imports of Ecuador are: mineral fuels, machinery and electrical machinery, vehicles, plastics, pharmaceuticals, rubber, steel, etc. (Trade Map, 2013) Ecuador imports reflect the need for the country to increase its industrial level to achieve a more efficient economic development.

Ecuador needs to expand its list of exports on an industrial level; currently, agricultural products and raw materials lead the country's exports. Ecuador needs to change its productive matrix in a responsible manner to ensure compliance with its objectives of development.

3.3. Balance of payments

The balance of payments is an accounting document that records economic transactions of a country with the rest of the world for a certain period, supplying detailed information on such transactions, whether goods and services or financial. (Central Bank of Ecuador, 2013)

According to the Central Bank of Ecuador (CBE), the balance of payments showed an improvement of 85.9% compared with the fourth quarter of 2012, the CBE goes on to explain:

The balance on the current account of the balance of payments for the period January-March of this year, achieved a result of - 41.3 million dollars, a figure that demonstrates an improvement in comparison with the fourth quarter of 2012 whose result was -\$293.8 billion. This progress would help to improve the performance of the balance of goods, services and income, which are detailed below.

The balance of goods passed -277.5 million dollars to a value of - 67.8 billion dollars, where exports for the period January-March showed an increase of 8.8% compared to exports in the last quarter of 2012, while imports increased to 6,469.7 million the first quarter of this year compared to 6,159.4 million dollars the last quarter of 2012.

Showing the balance of services, the same progress step -260.7 million dollars to -232.6 million dollars. The balance of income showed an increase from -383.3 million dollars to -\$298.2 million. (Central Bank of Ecuador, 2013)

The balance of payments data shows that Ecuador's economy is showing favorable conditions, thus the government can have more and better options in decision-making; however, the negative figures should be corrected with best strategies to care for the country's economy.

3.4 Type of change

Ecuador is a country lacking monetary policy, i.e. the ability for the Central Bank to issue banknotes and control the circulating and the types of interest within their territory. (Central Bank of Ecuador, 2013)

Ecuador cannot exercise currency exchange while it is dependent on the U.S. dollar. Ecuador lost its currency in 2000 when, "former President Jamil Mahuad imposed dollarization, to prevent the sucre-to-dollar exchange rate to continue to rise without government control, which would have caused a negative inflationary effect on the economy; increasing the interest rate and the prices of goods, products, and services." The monetary instability and lack of credibility in the sucre affected the solvency of banking in the country, as the deterioration of wages, salaries, pensions, etc. was most affecting the lower-middle class."²⁴ This situation led to the adoption of the dollar as the currency in Ecuador and begins a new stage where the country should go only with trade and fiscal policy.

President Rafael Correa has his position that a country without monetary policy is a country with an amputated economy, which would have to use other tools to be able to develop its economy; as in the case of trade policy which has been strengthened through the establishment of

²⁴ Calderón, 2011

embassies and a better image of Ecuador's trade relationship with the rest of the world. Currently, the currencies of the Latin American partners of Ecuador have depreciated strongly against the dollar causing Ecuador to lose competitiveness; in this way, Ecuador has implemented tariff policies that compensate for this lack of competitiveness.

Another tool that Ecuador uses is fiscal policy, which is defined as “a branch of the economic policy that configures the State budget and its components, public spending and taxes, as control variables to ensure and maintain economic stability, cushioning the variations of economic cycles, and contributing to maintain a growing economy and full employment without high inflation.”²⁵

Fiscal policy operates with the indebtedness of the country in organizations such as the IESS, FLAR, IDB, and CAF, among others; since Ecuador cannot issue banknotes as it did with the sucre. (Calderón, 2011)

Currently Ecuador has been able to reach a political and economic stability despite its lack of monetary and exchange rate policy where its brand image with the rest of the world has improved thanks to projects undertaken by the government. However, this issue is very delicate, and very important, in the accession process of Ecuador as a full member of MERCOSUR.

²⁵ Fiscal Policy Observatory, 2013

3.5 The Central Bank foreign reserves

Ecuador is handled through the International Reserve of Free Availability (RILD) which “corresponds to the amount of highly liquid foreign assets that a counterpart has in the liabilities of the balance sheet of the Central Bank of Ecuador. The Central Bank of Ecuador, calculates the monetary reserve of free availability which is the basis for maintaining the Exchange systems, financial reserve, and other operations of the Central Bank of Ecuador.”²⁶

This concept means that the international reserve of free availability (RILD) works as a full backing of monetary stocks issued by the ECB, as well as deposits that private and public financial systems keep in the Bank, acting as a resource for institutions to continue with its functions and powers.

The Constitution of the RILD is divided into six segments:

1. “Net position in foreign currency: Cash currency. Immediate availability in cash in the case of the ECB and remittances in transit in the country.” NET deposits in banks and financial institutions from the outside. Deposits at sight or a short period of up to 90 days. Investments abroad. Investments in international financial centers in fixed income securities and fixed term deposits.”
2. “Gold: records holdings in gold that keeps the ECB abroad, whether for safekeeping or as term deposits where interest is received. Gold is valued at market prices.”

²⁶ Central Bank of Ecuador, 2013

3. “Special drawing rights (SDRS). Records holdings on special drawing rights issued by the International Monetary Fund (IMF) and allocated to Ecuador as a member country. Special drawing rights constitute the unit of account of the IMF.”

4. “Reserve position in the International Monetary Fund. Corresponds to the contributions in gold, foreign currency, and units of account, that makes the ECB, in the IMF, have less short-term obligations with that body on behalf of the State.”

5. “Position with the LAIA. It records the net position of commercial operations carried out abroad through reciprocal credit agreements. The negative balance implies that the country has made, under these mechanisms, more imports than exports with LAIA member countries.”²⁷

It should be noted that the balance of this reserve is made up of the foreign money the ECB has on hand, deposits and investments that keep financial institutions outside the country, gold held by the same bank outside the country, deposits Ecuador has in the International Monetary Fund, and credit or debt that the country has with the members of the Latin American Integration Association (LAIA) by its commercial reciprocal operations. (Cueva, 2013)

²⁷ Central Bank of Ecuador, 2013

Table #21: International free reserves 2009-2013

Year	Month	In U.S. Dollars
2009	July	\$3,151,758,256
2010	July	\$3,857,606,874
2011	July	\$3,980,677,258
2012	July	\$4,040,307,564
2013	July	\$3,670,008,017

Source: Central Bank of Ecuador, 2013

By: Adrián Alvarado

The table was produced with the month of July as a reference, since the international free reserves levels fall in the month of December; July is a more stable month for analysis.

As you can be seen, the RILD levels have remained in a linear manner over the past five years, except for 2009 due to the global financial crisis experienced that year.

According to Diego Martínez, Chairman of the Board of the Central Bank of Ecuador (BCE), in the current Government, the RILD levels have been higher than levels included in the period of dollarization. In the past five years, the RILD had an average \$ 3.308 billion balance in relation to the 1,432 million for the period 2000-2006. (PRO ECUADOR, 2013)

The RILD is currently one of the most important indicators of the stability of the Ecuadorian economy, showing the liquidity and ability to deal with crisis situations like low oil prices or damage to production infrastructure, while maintaining the established economic model.

3.6 Public deficit of Ecuador and its financing

According to Patricio Rivera, Ecuador Finance Minister, 2012's fiscal or public deficit borders 3.7 billion dollars which will be covered by existing funding, a deficit equivalent to 4.20% of the GDP. The Finance Minister formalized this accountability in January 2013, ensuring that the fiscal deficit doesn't in any way mean that there is no money, but that is the part of the investment which is covered with financing or credit. Thus, \$2.2 billion will be covered with Chinese credits that will be disbursed in 2013. (*El Comercio* newspaper, 2013)

Rivera noted that the fiscal deficit is justified with the achievements and scopes the Government has had in recent years. One of the most important subjects of State investment is education for junior and senior level students, ensuring that the investment is not lost provided students work progressively to cover the costs of such progress in the Ecuadorian economy.

However, in August 2013, President Rafael Correa announced that the fiscal deficit amounted to \$4.2 billion with a need for funding of \$ 6.990 million. (*Ecuador Inmediato*, 2013)

Correa said that the fiscal deficit is not bad if it is coming from Ecuadorian investment, as in the case where works and actions give credit and a support new system. An example of course is the

money spent on hydroelectric dams, which will allow savings in the cost of fuels for electricity to be a net gain for Ecuador in 2016.

This study agrees with the funding policies that Ecuador has taken such as hydroelectric dams that will run in 2016, as well as the idea to ensure that the debt is not bad if it comes from investment, since it is part of the change taking place in Ecuador towards development.

3.7 Political stability in Ecuador 2003-2013

The Republic of Ecuador has experienced continuous economic, social, and political crises which have caused skepticism toward political characters and their respective rhetoric.

The 14 year crisis that was generated with the removal and departure of three former Presidents (Abdalá Bucaram, Jamil Mahuad, and Lucio Gutiérrez) constitutes the worst political period ever in Ecuador, in the midst of protests and grievances by Ecuadorians which demanded ending this shameful period in which the people could not rely on the government to fulfil its promises and finish projects. Dissatisfaction continued since the projects continued to go unfinished by those who replaced the dismissed leaders (Fabián Alarcón, Gustavo Noboa, and Alfredo Palacio); administrations that received less than 30% of Ecuadorian acceptance. (Presidency of the Republic of Ecuador, 2013)

In January 2007, Political stability finally arrived with the current president, Rafael Correa, who managed to regain the trust of the people. This so called “trust” is reflected with nine electoral

victories in his six years of leadership, which include two first round re-elections and three won popular consultations.

President Correa in his 2013-2014 inaugural speech said that the success of his term as President of Ecuador and support of the population of 84% (CNN in Spanish, 2013) is due to the policy where the people will always be above the capital, which leads to legal and political stability in Ecuador.

With these facts, it can be noted that the political stability that Ecuador has been living in the last six years has positioned this country as a strategic objective for negotiations and bilateral and multilateral trade agreements with the international community. An example of course is with Germany, a country that has undertaken cooperation projects with Ecuador claiming that a stable country inspires business security, “in 2011 – 2012, more than \$1 billion was recorded in the commercial balance in both countries,” said Gunther Neubert, Manager of the *Ecuatoriano-Alemana* Chamber of Commerce and Industries.

During the past 12 years, we have seen a significant growth of trade between Ecuador and Germany, year by year. “Businesses is very good,” said Neubert.²⁸

In this context, we can confirm that a country that demonstrates stability and acceptance of the population has an excellent international reputation, which can offer opportunities to anchor links and relations with other countries that appreciate this development, as is the case of Germany with Ecuador.

²⁸ Iturralde, 2012

Ecuador uses its new and improved image to promote large scale international agreements such as the trade agreement with the European Union and its accession as a full member within MERCOSUR.

3.8 Integrating Latin America

3.8.1 Ecuador and its contribution to Latin American integration

In the mid-1960s, Latin American countries begin to feel the need for agreements with members of the international community, in order to obtain the best benefit to entrepreneurs that started to emerge and cross borders, but those treaties mostly benefited the interests of the United States and Europe.

In the 1990s, there was already talk of Latin American integration, where the commercial sector remained the center of those international agreements, such as the Central American Common Market (CACM), the Community of the Caribbean (CARICOM), and MERCOSUR, with specific objectives of progress for its inhabitants. However, the current contribution and dynamism of these agreements has been severely reduced, losing its impact and international relevance, with the exception of MERCOSUR which is now consolidated as the first economic power in Latin America. Ecuador has formed part of treaties such as the Latin American Integration Association (LAIA) and the Andean Community of Nations (CAN).

Since the beginning of the new millennium, Latin America has begun to take a sense of regional identity, where commercial power is exceeded by nationalist Latin American unity that share

culture and history. Under this principle, since 2008, the Government of Ecuador strongly supports this growing regional integration, with the aim of ending the dependence on powerful countries, especially the United States; promoting new international organizations looking for a development plan for the region such as the Bolivarian Alliance for the Peoples of Our America (ALBA) and the Union of South American Nations (UNASUR). (Fedaeaps, 2010)

In 2008 the Union of South American Nations (UNASUR) was created, whose objectives were based on the regional integration in the field of energy, education, health, environment, infrastructure, security, and democracy. Ecuador is a founding member of this entity together with Argentina, Bolivia, Brazil, Colombia, Chile, Guyana, Paraguay, Peru, Suriname, Uruguay, and Venezuela. (UNASUR, 2013)

Ecuador is currently seeking greater agility in the processes established in the UNASUR and also is embarking on new ideas applicable to the entity such as the creation of a criminal court of the Union of South American Nations (UNASUR), this Court would be different from other international bodies such as the International Criminal Court in the Hague or the Andean Court of Justice. (UNASUR, 2013)

This organism is intended primarily to combat different forms of transnational crimes, such as money laundering, smuggling, and human trafficking, although the list of offences is not completely defined.

On April 11, 2008, Ecuador proposed to create an international organization formed by all the countries of Latin America and the Caribbean, pointing out that neither the United States nor Canada may be party to the agreement, immediately Party States approved the proposal to undertake this Organization on the condition that within a period of two years the objectives with the 32 members involved will be defined.

After discussing the objectives and competencies at the Summit of Latin America and the Caribbean on integration and development, in Riviera Maya (Mexico), on the 22 and 23 of February 2010, the Community of Latin America and the Caribbean (CELAC) was created, an organization for the development of the Latin American peoples based on regional development and social justice. This organization covers trade, political cooperation, and social issues. (CELAC, 2013)

The most recent event in the regional integration of Ecuador was on May 05, 2013, where Ecuador reported to the world its total interest to be a full member of MERCOSUR, a proposal that was received positively by members of the bloc, which will be negotiated and discussed for approximately 10 months.

This studies praise the work of Ecuador for its demonstrated commitment in the field of regional integration and important projects such as the Community of Latin America and the Caribbean (CELAC); in this way the country is contributing to South American Development where integration is the foundation of this work.

3.8.2 Ecuador and its participation in organizations and regional blocs

3.8.2.1 Andean Community of Nations (CAN)

The Andean Community of Nations (CAN) is a regional bloc formed by Ecuador, Colombia, Peru and Bolivia. This entity was created upon the signing of the agreement of Cartagena on May 26, 1969. This entity was created under the concept of Latin American integration through economic, political, and social alliances which would run as pillars of this organization.

The CAN, in 40 years, has developed a series of projects and sustainable proposals for the future of Andean citizens, starting with its areas of action such as: citizen participation, external relations, trade and economic integration, physical integration and borders, Social development, environment, tourism, security, culture, cooperation, energy integration, and institutional development. These activities are controlled for their perfect functioning in the same way Ecuador and other members of the CAN have launched integration programs that spread better the objectives of the CAN, such as the Andean Agreement, the University network of Andean Community Law (RUDCA) and companies that disseminate Andean citizenship. These projects remain afloat, but without relevant results due to a loss of influence by the CAN. (Andean Community of Nations, 2013)

Currently the Andean Community has suffered a weakening caused by the different political positions. “The impact of the exit of Venezuela due to the signing of the Free Trade agreements of Peru and Colombia with the United States. The objectives and standards initially proposed in the Treaty of Cartagena, a treaty that led to the creation of the CAN, have lost priority by several members. The common external tariff is one of the cornerstones treated by CAN and is a very

important issue when talking about integration, but this goal has not been and will not be reached yet.”²⁹

Currently, MERCOSUR exports more than 200 billion dollars a year, CAN barely manages to export 9 billion dollars annually, thus reflecting the great difference between trade blocs. (Economic America, 2013)

The difficult problems that the Andean Community of Nations is living have caused its members to seek new opportunities with other strategic partners, Ecuador has considered its permanence in the CAN due to the lack of protection of tariff barriers and benefits of belonging to the entity. Ecuador is currently pending accession to MERCOSUR, an entity that is on the rise due to its economic prosperity and the active participation of all its members.

3.8.2.2 Latin American Integration Association (LAIA)

The Latin American Integration Association (LAIA) is an international organization established on August 12, 1980, in Montevideo, Uruguay. Founded by eleven countries: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela, this agreement defined its objectives to obtain maximum benefit. The principles of LAIA are: “pluralism in political and economic matters; progressive convergence of partial actions towards the formation of a Latin American common market; flexibility; differential treatment on the basis

²⁹ Falconí Puig - Lawyers, 2013

of the level of development of the Member countries; and multiplicity in the forms of consultation of trade instruments.”³⁰

In this way, the LAIA embarks on three specific procedures to achieve objectives:

1. “A regional tariff preference, which is applied to products originating in member countries against the current tariffs for outside countries.”
2. “Regional scope agreements (common to all the member countries).”
3. “Partial scope agreements with the participation of two or more countries of the area.”³¹

Under these principles, the members of the bloc can undertake commercial, technological, and tourist agreements.

Ecuador, within this entity, is described as a country with lower relative economic development, jointly with Bolivia and Paraguay, does not enjoy economic participation as much as the rest of the members, however, the LAIA gives preferences to these countries like: special cooperation programs, pre-investment, business, finance, technology support, and wheels of compensatory measures.

³⁰ Latin American Integration Association, 2013

³¹ Latin American Integration Association, 2013

This study agrees with the decision of Ecuador to seek a new path for their development in integration to economic blocs, since the Andean Community of Nations (CAN) has lost international influence and intervention, in the same way Ecuador does not have a relevant participation in the Latin American Integration Association (LAIA); for this reason, we support the accession of Ecuador into MERCOSUR, an entity that shows stability.

3.9 Economic prospect of the accession of Ecuador into MERCOSUR by experts in the field

On September 30, 2013, in the city of Quito, a personal interview with Cesar Montaña Huerta, Director of Ecuador's multilateral trade negotiations, was conducted. Mr. Huerta is in charge of analysis, processing, and reporting on the accession of Ecuador into MERCOSUR. According to Cesar Montaña, Ecuador is a country that is restructuring its productive matrix and within this is the development and evolution of trade and international relations of Ecuador; therefore, it is of the utmost importance to undertake the project of economic integration at the global level.

Ecuador is currently negotiating a commercial Treaty with the European Union, which will open new strategic markets for Ecuadorian exporters, this being a very significant event for the economic development of the country. Montaña stressed that upon completing negotiations with the European Union, the next step is to start negotiations with MERCOSUR; despite the fact that Ecuador already complies with the requirements of the *Mercado Común del Sur* in its regulations. These negotiations are born of the need that Ecuador has some important points which were detailed in the requirements that the country needs to fulfil in order to be part of this regional bloc.

Cesar Montaña concludes that Ecuador must join MERCOSUR for many reasons; one, it being the first economic world power in Latin America; two, for their objectives and political policies that match the current goals of Ecuador; three, the need for international cooperation, i.e. an Andean community without prominence, and four, the ability of Ecuador to compete with the members of MERCOSUR.

However, Montaña supports the accession of Ecuador into MERCOSUR provided it strictly negotiates the requirements of Ecuador. (Montaña Huerta, 2013)

Conclusions, Chapter 3

This final chapter reflects the economic situation of Ecuador, together with political stability and participation in regional integration, so that important conclusions can be projected.

Ecuador is developing its economy with the principle of no longer relying on oil, rather evolving its production together with the industrialization of products. All of this adds to the change of its productive matrix to form the basis of its evolution. This major project, in the eyes of the world, created Ecuador into a country that is changing and coming out of monotony, showing that Ecuador wants to join an integral development, like MERCOSUR.

Ecuador's positive relations with other Latin American countries demonstrate the aim of undertaking important commercial agreements for its economy; in this way, the accession to MERCOSUR would be the most important step of Ecuador in regional integration.

Finally, one can see that Ecuador is a country that is training its population to achieve their goals and at the same time its internal policies show that regional integration is the guarantee of the future South American, engaging fully with the principles of MERCOSUR.

Conclusions

Considering the preceding research, the following can be concluded:

1. MERCOSUR is the first economic power in Latin America due to its successful internal and foreign trade, accompanied by effective internal structuring and legislation that works to anticipate and correct the minimum risk for the entity. For this reason, we support Ecuador's initiative in wanting to be a full member of MERCOSUR, which shows economic and political stability.
2. The common external tariff (AEC) of MERCOSUR, is another fundamental reason for the good operation of this entity throughout its existence; this common external tariff has been adopted in a harmonic way by members of MERCOSUR; similarly, we conclude that Ecuador could adapt to the common external tariff within a period of four years, as Venezuela is doing, and receive the benefits of the full members of MERCOSUR.
3. The economic asymmetries between MERCOSUR members are compensated with tariff preferences, pre-investment, financing, and other compensatory measures enabling comprehensive benefit. Recognizing the economic asymmetries in Ecuador with MERCOSUR, we cannot conclude that Ecuador can access these compensatory measures without falling behind the rest of the Member States of the bloc.
4. The level of industrialization of Brazil and Argentina is far superior to the other members of MERCOSUR; for this reason, technology exchanges and knowledge have become a guarantee

for improving internal competitiveness. In this aspect, Ecuador is already working with the five member states of MERCOSUR; therefore, we certify that the accession of Ecuador into MERCOSUR would improve the current proposed projects.

5. A latent weakening of the Andean Community of Nations has caused its members to seek higher profits in different treaties, Ecuador has put its interest in MERCOSUR which has accepted Ecuador's request. To perform this analysis, we conclude that MERCOSUR is in a better economic position to accommodate Ecuador.

6. MERCOSUR approves and highlights the accession of Ecuador, claiming that it is a country that complies with the requirements to become a full member, in the same way MERCOSUR accepts rounds of negotiation to discuss the requirements imposed by Ecuador for its accession. The opening that MERCOSUR has for Ecuador shows the intention of the entity for Ecuador to become a full member. Thus, we conclude that MERCOSUR and Ecuador work jointly in their objectives, being Ecuadorian membership a step for the evolution of MERCOSUR.

7. Ecuador undertook, as a main project, the change of its productive matrix; which is under development by means of State investment. Therefore, the technology, knowledge, and support of MERCOSUR are guaranteed for the successful change of the productive matrix. Ecuador intends to perceive all the support possible once it becomes a full member of MERCOSUR, for this reason we certify that MERCOSUR will be an important tool for the change of the Ecuadorian productive matrix.

8. The trade balance of Ecuador with the members of MERCOSUR is negative, except with Uruguay and Venezuela; however, the economy of Ecuador has improved and this progress is revealed in its exports in the last three years. Hence, we can conclude that Ecuador has improved its competitiveness.

9. The economy of Ecuador has been developed with an annual average of 4.20% growth, becoming a middle-income economy with an upward trend; however, Ecuador exports show a lack of industrialization, a reason why we conclude that Ecuador needs to further develop its industrialization to not be outdone by the members of MERCOSUR.

10. The political stability that Ecuador is currently enjoying promotes it as economically stable in the eyes of the world; which in turn has contributed to more open trade for Ecuador. Under this background, we conclude that Ecuador has laid the foundation to emerge into regional integration, specifically the commercial development guidelines outlined by MERCOSUR.

11. Finally, we believe that the accession of Ecuador into MERCOSUR is feasible and beneficial to Ecuador. Ecuador is a country that is demonstrating sustainable economic development and policies consistent with those used in MERCOSUR. In the same way, we conclude that the requirements imposed by Ecuador to the *Mercado Común del Sur* are vital to ensure a completely satisfying membership within the entity, where the minimal risk that can occur to Ecuador is deleted.

Recommendations

1. We recommend that Ecuador must negotiate their requirements prior to accession, with the aim of finding the most benefit from MERCOSUR; otherwise it would not be able to ensure successful participation in the block, since MERCOSUR may have a template set with regulations to follow where Ecuador would not see the same level of benefits as the other members of the bloc.

2. We recommend informing the population with concise and understandable data on the benefits for Ecuador to participate as a full member of MERCOSUR. According to analysis, accurate information increases the acceptance and compliance of the population.

3. We recommend finalizing the trade agreement and the investment treaty with the European Union, in order to expand trade opportunities for Ecuador. As discussed previously, Ecuador plans to expand its export markets through strategic trade agreements, the Treaty with the European Union being the perfect complement to accession by Ecuador to MERCOSUR.

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