



University of Azuay

Faculty of Legal Sciences

School of International Studies

**EFFECT ON TOY IMPORTS TO ECUADOR IN THE PERIOD
2008-2014 BY THE IMPORT SUBSTITUTION POLICY**

Thesis prior to obtaining a degree in International Studies with a
bilingual major in Foreign Trade

Author: Vanessa Johana García Feijóo

Director: Luis Tonon

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Dedication

With all my love, I dedicate this research work to my parents and sisters, who are my biggest supporters. They did everything so that I could achieve my dreams. I thank them for encouraging me and giving me all their help. I dedicate this thesis to you.

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To God, for guiding me every day.

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Abstract

This thesis is an entirely new research project which aims to understand, analyze, and evaluate the effect of toy imports to Ecuador in the period between 2008 and 2014, as well as review the change of trade policy of importation substitution.

This thesis will also assess the measures taken by the government, such as tariff and quality standards, in order to reduce imports by encouraging domestic industry. These measures are currently the main focal point for change in the productive matrix and a change of the pattern of specialization of the economy; in the end, this will allow Ecuador to generate greater added value to its production.

Introduction

This study is motivated by the difficulties that toy importers face today; its products are forced to be substituted for domestic products to strengthen the economy. I speak of a change in the consumption structure that favors the imported, where the national consumer is compelled to consume domestic products and imported products must substantially increase in price and reduce in volume.

It is known that imports seek to fulfill the needs, tastes, and preferences of consumers in local markets that cannot be satisfied otherwise. However, the Ecuadorian government has made decisions to increase domestic production by generating tariff changes and by imposing restrictions and controls on product quality.

In this thesis, the effects on the toy industry, regarding the change in trade policy for import substitutions, will be analyzed. Also, we will review trade policy, determining the behavior of tariff measures and quality standards on toy imports in Ecuador from 2008 to 2014.

This methodological investigation aims to use qualitative and quantitative methods; qualitative methods are obtained from documents issued by the national government, such as resolutions or agreements and other documents of theoretical support and quantitative data obtained from the Central Bank of Ecuador. The data in the period from 2008 to 2014 will be analyzed. Also, this thesis will require field research, specifically interviews, which will be conducted with two toy importers in the local market who will provide information as a basis for this investigation.

CHAPTER 1: INSTRUMENT OF COMMERCIAL POLICY

Introduction

The Ecuadorian commercial sector is tied to foreign trade; it has gradually been occupying space directly in the economy. In recent years, the increase in imports has prompted a deficit in the trade balance of Ecuador, which has influenced the President of Ecuador to adopt measures that one way or another would restrict imports and avoid the outflow of currency. The measures that have been implemented by the current government have come in the form of tariffs and quality standards.

The toy industry has been one of the main sectors affected by the aforementioned measures; however, one must take into account the size of this industry, since it is composed of areas of importation, exportation, and production. Toy imports create certain benefits for the economy, some of which are increased tax revenues and a significant increase in jobs.

1.1. Trade Policy in Ecuador

Foreign trade is the foundation for the development of the economy of a country, for this reason, both imports and exports are very important within states. Certain sectors of the domestic industry are not efficient in their production and consequently do not have the competitive ability of large international companies.

According to John Daniels in his book *International Business*, “importation is the purchase of a good or service by a purchaser located in one country to a seller located in another country” (Daniels, Radebaugh, & Sullivan, 2013). Consequently, imports allow citizens to obtain products not manufactured in the country of origin at lower costs and with different levels of quality.

Importantly, the evolution and development of the Ecuadorian economy has relied heavily on foreign trade. With oil being a key factor in recent years, this product has come to represent more than half of Ecuador’s total export earnings.

One of the tools of the Ecuadorian government's economic policy is its trade policy; this is defined as, "a management toolkit available to the State to maintain, alter, or substantially modify the commercial relations of a country with the rest of the world" (Padilla Torres & Sonora, 2008). So we can conclude that trade policy is a set of measures taken by the government of each country that seek to regulate, maintain, protect, improve, and properly manage the country's trade relations with the rest of the world.

The main objectives of Ecuador's Trade Policy are to reduce domestic production costs, modernize the production system, help develop and diversify exports, and expand destination markets for Ecuadorian exports.

The commercial policy of Ecuador seeks to create trade integration processes, facilitating entry into international markets and harmonization of laws regulating economic activity in the country. The federal government has signed and ratified several international agreements that have led to the integration of unions, communities, and blocs; such as the CAN (Andean Community of Nations), ALADI (Latin American Integration Association), MERCOSUR (Southern Common Market), etc. These groups seek to comply with common interests to allow access to Ecuadorian goods in international markets; thus, promoting changes in the productive matrix and encouraging foreign investment in the country. For these reasons, the government has also decided to implement measures that restrict imports that encourage domestic production, which has led Ecuador to form what is called a Protectionist Trade Policy of Ecuadorian Industry. The application of this trade policy is justified in dollarized economies, like that of Ecuador, because the government must equalize the trade balance deficit when its exports are less than imports.

1.2. Historical Review

In Ecuador there has not been a commercial policy that has been consistent because most presidential administrations have taken actions that were influenced by political leaders loyal to their own ideology and social environment.

Ecuador has managed its economy similarly to other Latin American countries like Venezuela, Peru, and Chile where they also sought to protect their economies by adopting tariff measures. Each of these countries has been closely allied with some hegemonic group; because of this, the economy of Ecuador has experienced a series of booms and crises closely linked to the cycles of its central capitalist economy, not necessarily its economic relations (Acosta, 2006).

During the 70s and early 80s, Ecuador maintained the import substitution system (Solórzano Andrade, 2007), also known as a model of industrialization through import substitution. This system limited imports of manufactured products to encourage domestic production, thereby facilitating companies to develop these so called uncompetitive sectors.

Industrial policy has also been managed through tariff protections on imports of consumer and manufactured goods, specifically raising prices for products that could not be produced domestically.

In the late 80s and early 90s, Ecuador changed its strategy and began to expand its imports, which led companies to improve the efficiency of their business models (Solórzano Andrade, 2007). Due to expanded imports, automobiles began to dominate the Ecuadorian trade policy of that time. Later, Ecuador formed a free trade agreement with the United States, the most powerful country in the political, economic, and financial area in the world.

Ecuador's trade policy was regulated by the Law on Foreign Trade and Investment approved by Congress on May 22, 1997. In Article 1, the law aimed, "to regulate and promote foreign trade and direct investment, increase competitiveness of the national economy, promote the efficient use of productive resources of the country, foster sustainable development, integrate the Ecuadorian economy internationally, and contribute to raising the welfare of the people" (Law on Foreign Trade and Investment), n.d.).

There are a large number of institutions working on the design and implementation of policies that promote the country's exports properly using schemes for

sustainability of natural resources and cooperation. One such institution is the Corporation for the Promotion of Exports and Investments (CORPEI), founded in 1997, which aims to promote exports, boost development productivity, and internationalize sectors of Ecuadorian companies.

In 2006, the National Foreign Policy Plan (PLANEX), prepared by the Ministry of Foreign Affairs, in order to form a democratic and consensual proposal by establishing a permanent planning system, with projections to 2020, was created. Within this same period, the economist Rafael Correa assumed power as President of Ecuador, marking a shift in international trade policy (Ponce Leiva).

1.2.1. Current Trade Policy of the Ecuadorian Government

“Trade policy has been the most erratic issue of the administration of President Rafael Correa” (Vela, n.d.). The lack of trade agreements, such as those with neighboring countries and the United States, defines a protectionist trade policy; to include the measures taken by the government to prevent the importation of certain products. This implies that products will become scarce and the prices of said products will increase, which will lead to a destabilization of the domestic consumer economy.

In recent years, Ecuador’s trade policy has not been consistent or conclusive, considering there have been several ideological disagreements within the current administration of President Rafael Correa; furthermore, various trade agreements have been hindered. The current government has raised the need to move away from a Free Trade Agreement (FTA) and lean more towards a protection of domestic industries through the use of tariffs.

On December 29, 2010, the Ecuadorian government implemented the Organic Code of Production, Trade, and Investment (COPCI), which sought to develop a new conceptual and institutional strategy for the country. The COPCI aimed to, “regulate the production process stages of manufacture, distribution, exchange, trade, consumption, management of externalities and productive investments geared toward the realization of *El Buen Vivir* (Good Living). This policy has sought to create and

strengthen the regulations that enhance, promote, and encourage the production of higher added value; to create conditions to increase productivity and promote the transformation of the productive matrix, facilitating the application of tools for productive development that will generate quality employment and eco-efficient and sustainable balanced, equitable development, all the while caring for nature” (National Assembly, 2015).

Through this protectionist measure, Ecuador seeks to increase productivity by promoting employment, as well as internal and external consumption of its products. This is the basis of Ecuador’s new and comprehensive productive matrix.

In 2011 President Correa outlined Ecuador’s position on international trade.

“Let us deal with international trade intelligently, patriotically; and we will, if possible, because it is not the last Coca Cola in the desert, form a trade agreement and not a free trade agreement with the European Union that is beneficial for both parties, avoiding neocolonialism which has wanted to impose on other treaties, ‘free trade.’ We will never accept that. . .” (Correa Delgado, 2011).

Presently, the administration of President Rafael Correa revealed that Ecuador should favor other markets and that the current measures taken have been conducted with the goal of finding the quickest and safest way to industrial development, thus ensuring more jobs for Ecuadorians. Accordingly, if we defend the industries in which we may have a comparative advantage in the future, and which our market is not able to develop, we will obtain benefits from this policy. However, if we defend industries in which we will never have advantages, we will be producing in sectors where we are not comparatively better, as in the case of the toy industry.

The current constitution ratified in 2008, which governs Ecuador, was drafted by the Constituent Assembly in Montecristi and provides, “a set of principles, rules, and procedures related to trade policy that favor the approach of ‘endogenous development’ and to a lesser extent that of ‘fair trade’ ” (Estévez, 2012).

The Constitution of Ecuador establishes the following articles on trade policy:

Art. 304- Trade policy has the following objectives:

1. Develop, strengthen, and revitalize domestic markets with the strategic goal set in the National Development Plan.
2. Regulate, promote, and implement appropriate actions to boost strategic insertion into the global economy.
3. Strengthen the productive apparatus and national production.
4. Contribute to a guarantee of food and energy sovereignty, and reduce internal inequalities.
5. Promote the development of economies of scale and fair trade.
6. Avoid monopolistic and oligopolistic practices, particularly in the private sector, and others that affect the functioning of markets.

Art. 305- Creating and setting tariff levels are the sole responsibility of the Executive Branch.

Art. 306- The State shall promote environmentally responsible exports, preferably those that generate more employment and value added, in particular in exports of small and medium producers and in the craft sector. The State shall promote the imports needed for development of objectives and discourage those that adversely affect domestic production, population, and nature.

1.2.2. Instruments of Trade Policy

The most important instruments of trade policy are: (Global Business, n.d.).

- **Tariffs:** Taxes on imports or exports.
- **Subsidies:** intended to support domestic firms in international markets, increasing their shares in foreign markets.
- **Import quotas and voluntary export restraint:** a quantitative restriction in which the government sets the maximum number of units that the country can

import; for example, the maximum units of toys that can be imported for a year in Ecuador.

- **Domestic content requirements:** policy measures that would normally require that a certain percentage of the assets used in the production process come from local manufacturers.
- **Antidumping policy:** trade defense measures applicable when a foreign supplier applies prices below those applied in their own country. Dumping is defined as selling products in the international market at a lower cost than production.
- **Administrative policies:** informal or administrative policies that governments use to restrict imports and promote exports.

In Ecuador's trade policy, the main instruments are:

Table 1: Policy Analysis of Foreign Trade of Ecuador

POLICY	DEFINITION
Tariffs	Taxes or levy to be paid to both ingress and output of goods, imports or exports.
Special schemes	Forms of import or export, as appropriate, are characterized by ellipsis, releases, or returnable from customs duties.
Trade rules	Rules that apply to prevent unfair trade in goods (anti-dumping).
Import licensing	Procedure whereby importers are applying for entry to customs area of products or services that will be imported.
Prohibited Imports	Prohibition of imports of that are hazardous to the health of people.

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Source: Foreign Trade

When analyzing table No. 1, we can see that policies handled in Ecuador demonstrate a level of protectionism, due to a lack in monetary and exchange rate policy which is why the country has adopted a more stringent measure in the exchange of goods and services worldwide.

1.3. National Plan for Good Living

Through the efforts of national and local authorities, public and private institutions, social movements, and representatives of various sectors of civil society, the National Secretariat of Planning and Development (SENPLADES) presented the country's National Development Plan, known as the National Plan for Good Living 2009-2013.

The National Plan for Good Living has been the fundamental structure of political and economic ideology of President Rafael Correa. It was approved at the meeting on June 24, 2013 by Resolution No. CNP-002-2013. At first it was called the "National Development Plan," the same term used from 2007 to 2010. Later on, from 2009 to 2013, the government stressed the term "National Plan for Good Living;" this particular label is still used today (Pérez Arellano, 2013).

Article 280 of the Constitution of the Republic of Ecuador defines the National Development Plan as, "the instrument to which the policies, programs, and public projects will be subject; programming and execution of the state budget; and investment and allocation of public resources; and coordinate the exclusive powers between the central government and the autonomous decentralized governments. Its observance is mandatory for the public sector and applicable to other sectors".

The National Plan of Good Living, "is the lifestyle that allows happiness and permanence of cultural and environmental diversity; it is harmony, equality, equity, and solidarity" (National Secretary of Planning and Development, 2013). This is a new perspective that will focus on maintaining and promoting changes, primarily a new movement toward changing the Production and Energy Matrix. It is said that both domestic investment and public policy should be linked to development that the national government strives to achieve; where citizens can realize the desired *Sumak*

Kawsay (a term in the Quechua language which means “Full Life”). For ancient peoples, it is the way to live in harmony with society as a whole and with nature.

This plan, developed from 2013 to 2017, contains a set of 12 targets, expressing the government’s desire to continue with the historical transformation of Ecuador. Within these 12 targets, target 10 has significant relevance to this research thesis. This target aims to, “promote the transformation of the productive matrix”. This target basically encourages production within the country, as well as productivity and competition with the world as a whole. By working towards this goal, new jobs would be created, which would in turn lead to a new found emergence of the country.

Regarding imports, this plan entails a number of changes; which for those involved in this area can mean conflicts, setbacks, doubts, and even damages. All of these aspects should be well analyzed in order to take any necessary measures.

1.3.1. National Agenda

The Ministry of Coordination of Production and Competitiveness is responsible for the Sectorial Council for Production Policy, through which policies and actions are articulated in one of the seven areas of state management, which converges the vision of the government’s “citizen revolution”.

The Productive Transformation Agenda is based on, “an organized, sustainable, and dynamic set of economic, socio-cultural, and environmental policies that guarantees the relationship of good living” (Sectorial Council for Production, 2010-2013). The Productive Transformation agenda emphasizes the importance of 14 productive sectors as priorities of the national government, as these are sectors with a high impact on employment levels.

Participation and dialogue between the public and private sectors is already a permanent practice in building a productive Ecuador. Over 40 meetings with businessmen, farmers, local governments, institutions, and universities that promote

development were conducted, which in turn creates a national dialogue (Sectorial Council for Production, 2010-2013). Through this dialogue, all Ecuadorians are building the national development strategy for the short, medium, and long term; this is a strategy by Ecuadorians, for Ecuadorians.

Thanks to the participation of all productive sectors and the national government, a structural approach is being taken, as well as a productive transformation that includes a proactive attitude and limitless goals. In the end, the ultimate effort that is taking place throughout the country is to become an equal and cohesive society.

1.3.2. Change in the Productive Matrix

The objective of the present Government is to change the productive matrix and thus increase exports and replace imports domestically. With this change, more jobs are generated and more foreign investment is acquired, resulting in a positive effect directly reflected in the balance of payments. The change in the production model not only means replacing imports but also increasing exports.

The Ecuadorian economy has been based on the export of raw materials, all the while neglecting the development of its national industry. Furthermore, the raw materials that are exported return to the country in the form of finished products with added value. All income depends mainly on exports.

The Citizen Revolution created the Ministry of Strategic Sectors for branching national industry and acquiring international investment, both necessary conditions for development. Ecuador generates energy produced by renewable resources and even exports excess energy to neighboring countries. Since its inception in 2008, the Citizen Revolution has made changes to the country's infrastructure to the point of being one of the most modern in Latin America.

The fundamental goal of the National Plan for Good Living is to have a strong and sovereign economy and to change the Productive Matrix. According to the National Secretary of Planning and Development, the productive matrix is defined as, “the way society is organized to produce certain goods and services. It is not limited to strictly technical or economic processes, but the whole set of interactions among social actors who use the resources they have at their disposal to carry out productive activities” (National Secretariat, 2012). The basis of the productive matrix is the need to generate alternative means of production and consumption as well as a way to abandon the productive matrix of the last two centuries, i.e. primarily the exportation of raw materials.

A change in the productive matrix means a change in the economy, which now depends on non-renewable resources such as oil. Additional changes must include stimulus towards an economy based on renewable resources such as technology, knowledge, and Ecuadorian talent. Furthermore, the productive matrix should prevent the importation of goods that can be produced domestically, thereby increasing added value and creating a unique identity in international markets. It is essential that we remember that a higher added value means increased revenue for the country.

A change in the productive matrix means having to lead Ecuador towards industrialization, a new stage of economic development, and promotion of public-private ventures. This process can increase domestic production, open new markets, and create quality jobs for citizens; thus distributing more wealth among all Ecuadorians.

There are four axes for the transformation of the productive matrix, these are: (National Secretariat, 2012).

1. Productive diversification based on the development of the strategic-refinery, shipyard, petrochemical, metallurgy, and steel industries as well as the establishment of new production-mariculture activities, biofuels, and wood based products.
2. Adding value to existing production through the introduction of technology and knowledge in current production processes of biotechnology (biochemistry and biomedicine), environmental services, and renewable energy.
3. Selective substitution of imports, which are currently produced domestically, or which could be replaced in the short term, for example, pharmaceuticals and technology (software, hardware, and IT services).
4. Promotion of new exports, particularly by popular and cooperative companies or by companies that produce higher added value goods and services i.e. fresh and processed food, apparel and footwear, and tourism. The promotion of exports also seeks to diversify and expand business into international destinations.

By using these four axes for the transformation of the productive matrix, Ecuador can create a better future for its citizens. A shift towards product diversification, added value of goods and services, and selective substitution of imports improves exportation. Within the changes of the productive matrix, the issue of import substitution is vital in order to boost domestic production.

1.4. Substitution of Imports

In the last four years, Ecuador has experienced significant economic growth. According to the Central Bank of Ecuador, in 2011, growth reached 7.8%, double that reached in 2010. Some sectors argue that this growth was due to measures taken by the federal government, specifically government spending, including import substitutions.

“Import substitution is one of the measures taken by the government of Ecuador to boost domestic industry which until 2017, expects to replace more than \$6 billion in imports. The aforementioned measures aim to boost domestic production with significant impacts on employment and production” (Public News Agency of Ecuador and South America, 2014). With import substitution, the Ecuadorian government seeks to stop buying foreign goods and services, thus strengthening local industry and likewise improving production.

The import substitution model has its origins after the great depression of 1930 in the United States. It was formed by the Economic Commission for Latin America (ECLAC) and was valid until the 1950s. (Fierro, 2014) This model aims to replace imports with domestic production through economic measures taken by the government. The current change of the industrialization model for Ecuador comes from this model, which is why the aim of import substitution refers to those consumer goods that Ecuador has already imported (Luna Osorio, 2014).

However, the Ecuadorian government has taken some measures to increase domestic production. These decisions have been made through the adoption of tariff changes, restrictions, controls on product quality (such as Resolution 116 of the COMEX), and its import substitution plan.

In Ecuador, safeguards have been applied to various imported products, for example toys, as well as tariff surcharges and quality standards; basically, the measures taken by the Ecuadorian government aim to complicate the importation process for certain items. The government seeks to encourage domestic production by manufacturing

the same toys that have been imported, thereby creating a surplus in the trade balance and encouraging the development of various national industries.

1.5. The toy industry in Ecuador from 2008 to 2014

The toy industry in Ecuador is basically, “made up of artisans, as well as micro, small, and medium enterprises, employing approximately 3.000 people” (Explored, 2012). In general, these companies are engaged in the production of wooden toys, such as teaching materials for schools and other learning centers. According to the National Institute of Statistics and Census (INEC), the manufacture and marketing of toys in the country is stimulated by a child population of 4.5 million. The age at which children begin to play starts at age three and continues on until age twelve.

Generally the toy market is very important because it produces consumer goods intended for entertainment and fun for young audiences. It is estimated that worldwide, 250,000 varieties of toys can be classified according to various criteria: by age groups (infants, children, and adults), product type (dolls, cars, educational, tricycles, etc.); type of activity, material type, incorporated mechanisms, production processes, among others (Center of Studies for Production).

According to the Ministry of Industry and Productivity (MIPRO), there are, “47 domestic manufacturers and 53 importers who are part of the toy industry in Ecuador. 62% of domestic mills are located in the provinces of Guayas and Pichincha; 13% are in Los Rios and Tungurahua” (El Telégrafo, 2014). The importation and marketing of toys in the country is widespread, mainly by small and medium importers but some larger department stores and specialty shops are also involved. Some manufacturers import semi-assembled products, as the cost of labor remains an important component.

The leading manufacturers in Ecuador are: PICA, Corporation El Rosado; Mi Juguetería, and Corporation Mundiplast. The challenge of these small and large companies is the ability to compete with internationally based companies that promote their toys in Ecuador; furthermore, according to PICA and Corporation El

Rosado, it is difficult to compete in large markets because of Asian and European based companies that have marketing advantages and better recognized brands.

Toy production consists of several stages, from design and product development, manufacturing and assembly, to promotion and marketing. Usually, toy production requires, “raw materials provided by other industries such as plastics (polypropylene, polyethylene); textiles; metal (iron, steel); paper, paperboard, cardboard and mechanisms for toys (electric motor, cords, springs, batteries, etc.)” (Center for Studies of Production). One of the main keys for the success of the toy industry in Ecuador is the ability to innovate and introduce new products. The industry must meet the needs and demands of consumers.

Below is a table of total annual imports from 2008 to 2014 of all the sub-items, comprising Chapter 95 of the NANDINA.

Chapter 95: “TOYS, GAMES, AND ARTICLES FOR GENERAL PLAY AND SPORTS; ITS PARTS AND ACCESSORIES”

TOTAL ANNUAL IMPORTS OF ALL THE SUB-ITEMS COMPRISING CHAPTER 95 OF THE NANDINA								
95.03	Tricycles, skates, pedal cars and similar wheeled toys; carriages and strollers for dolls; dolls; other toys; scaled models and similar models, for entertainment, including animation; any type of puzzles							
				Unit: Value in Thousands of US Dollars				
Sub-heading	Tariff Description	2008	2009	2010	2011	2012	2013	2014
9503001000	Tricycles, skates, pedal cars and similar wheeled toys; carriages and strollers for dolls	4,961.46	3,370.12	4,752.49	6,461.80	5,844.08	7,271.48	4,779.32
9503002200	Dolls, including outfits	0	0	0	0	0	0	0
9503002210	Things that represent crime scenes, violence, torture, or death	0	0	0	0	0	0	0
9503002290	Other	8,506.56	5,886.18	7,273.42	8,994.80	10,308.93	11,634.28	70,309.70
9503002800	Outfits and accessories, of clothes, shoes, hats, etc.	118.29	110.16	137.24	207.43	876.16	239.03	834.90
9503002900	Parts and other accessories	207.96	284.42	378.36	629.71	504.03	286.99	281.49
9503003000	Scaled models and similar models, for entertainment, including animation	2,726.47	1,895.43	2,599.58	5,544.17	5,539.85	5,465.19	2,659.95
9503004000	Any type of puzzles	1,149.40	885.49	1,017.07	1,294.94	1,228.35	1,472.75	621.84
9503009100	Electric trains, including rails, signs, and other accessories	152.50	90.13	75.92	279.77	104.85	183.37	58.18
9503009200	Construction based	1,569.08	1,372.81	2,646.29	2,211.83	2,111.67	3,796.43	3,018.10
9503009300	Things that represent animals or non-humans	8,507.53	7,141.05	7,788.70	7,385.79	9,887.27	10,144.84	5,834.25
9503009400	Musical instruments and equipment	1,535.35	1,019.70	1,019.70	1,762.99	2,000.45	1,973.11	1,025.57
9503009500	Presented in sets or outfits	5,896.73	5,063.40	6,860.34	8,163.68	8,591.56	8,261.60	4,917.53
9503009600	Other, with a motor	5,028.12	3,179.93	3,642.05	5,258.69	6,384.18	6,215.77	3,230.30
9503009900	Other	18,971.74	12,786.20	17,734.98	23,275.06	24,530.12	28,556.04	15,449.99

Prepared by: Vanessa García

Source: Central Bank of Ecuador

As shown in the table, there is a decrease in imports of all sub-headings, especially the sub-heading 9503001000, toys with wheels and the like. This information is corroborated by two personal interviews with the companies Group Gerardo Ortiz e Hijos Cía. Ltda. and Comercializadora JCEV both major importers of toys. These interviews will be analyzed in depth in later chapters.

1.6. China, the largest exporter of toys in Ecuador

For twenty years China has experienced dynamic growth in the world market. China's role in world trade has important implications, not only for China, but also for its exports to the rest of the world. Despite having a population of about 1.3 billion, China allocates almost 85% of its production to exports. China is still producing at unbeatable prices due to cheap labor (Toys Sector Report, 2009).

According to the Corporation for the Promotion of Exports and Investments (CORPEI), China is the leading exporter of toys in the world, manufacturing 39% of total toys made. It is the leading provider of tricycles, scooters, and metal cars to the Ecuadorian market followed by Hong Kong, Mexico, the United States, and Panama (El Comercio, 2014). China exports a wide variety of inexpensive toys to Ecuador, mostly made of plastic, and manufactured on a large scale, which allows them to be produced at a lower cost.

For most importers, the best time to visit China and see the variety of toys that are produced in the month of April in which new models and designs are available for purchase.

China provides many Ecuadorians importers the opportunity to choose the type of toy they want to buy according to quantity, quality, and price. The type of toy the importer wants to sell in their stores depends mostly on price, as there is too much competition in the Chinese toy market. Although there are many products with the same characteristics, the difference is in quality and price.

**Table 2: Ecuador imports from China compared to total Imports by the
NANDINA, Period 2008-2014**

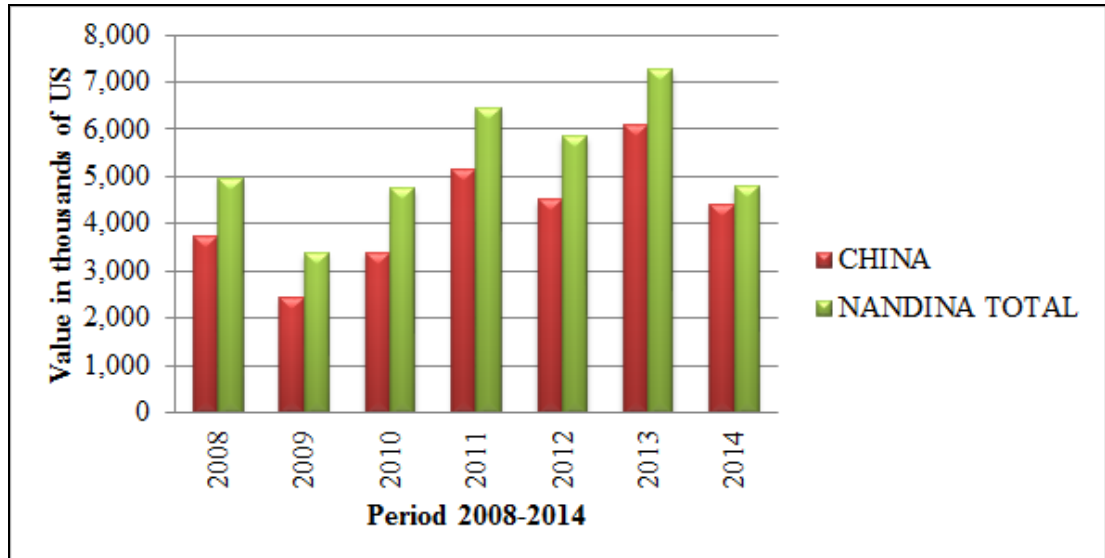
COMPARISON: TOTAL IMPORTS FROM CHINA FROM 2008 TO 2014 WITH TOTAL IMPORTS FROM NANDINA							
Sub-heading: 9503001000		Description: Tricycles, skates, pedal cars and similar wheeled toys; carriages and strollers for dolls; dolls; other toys; scaled models and similar models, for entertainment, including animation; any type of puzzles					
			Unit: VALUE IN THOUSANDS OF US DOLLARS				
YEAR	2008	2009	2010	2011	2012	2013	2014
CHINA	3,729.36	2,424.61	3,388.98	5,159.37	4,512.46	6,098.81	4,405.21
NANDINA TOTAL	4,961.46	3,370.12	4,752.49	6,461.80	5,844.08	7,271.48	4,779.32

Prepared by:Vanessa García

Source:Central Bank of Ecuador

As shown in Table No. 2, Ecuador has imported each year from China this sub-heading; we can see the increase each year in thousands of US dollars. At the same time, there was a significant decrease in the years 2009 and 2014 due to the global economic crisis and the restriction on imports.

Figure 1: Behavior of total imports from China to Ecuador, Period 2008-2014, compared to the total by NANDINA



Prepared by: Vanessa García

Source: Central Bank of Ecuador

In Figure No. 1, we can see the behavior of total imports from China to Ecuador from 2008 to 2014, compared to the total imports of the same subheading; China continues to lead with more than \$6 billion dollars in 2013. It is evident that China is the largest supplier of toys to Ecuador, a fact that opposes the Ecuadorian government's objectives in encouraging domestic production.

1.6.1. Trade Agreement between China and Ecuador

Ecuador and China are two totally different countries specifically in their cultures, as well as their political, economic, and social systems. Referring to the economic relationship between Ecuador and China, there are no political problems or conflicts of interest.

The importance of trade agreements are mainly based on the boost they provide to the industry of a country because they allow access to new markets. The establishment of clear and long-term rules provides access to potential buyers and

increases factors of competitiveness for exporters, which otherwise might flood a country with too many imported products.

In recent years, economic and trade relations between China and Ecuador have developed greatly; China is also willing to further strengthen economic and trade cooperation with Ecuador. According to the Ecuadorian government, “as part of its foreign policy, Ecuador exercises fair trade based on dialogue, transparency, and respect, that seeks greater equity in international trade while objectively establishing real asymmetries” (Embassy of Ecuador in the PRC, n.d.). Relations between the two countries have been developing steadily and have brought tangible benefits for both parties. Ecuador seeks to expand mutual development in order to encourage well established companies to invest in Ecuador.

Ecuador ranks as the country with the largest amount of Chinese investment. In recent years, the exchange of high level visits between the two countries, with frequent dialogue and cooperation in various areas such as agriculture and infrastructure, has increased.

It can be concluded that relations between China and Ecuador are excellent because, in Ecuador, investments in Ecuadorian development projects are completely safe and profitable. Trade integration is a challenge for both countries in order to improve production diversification, innovation, and quality. These factors allow Ecuador to be competitive and gain greater employment opportunities.

Conclusion

Ecuador needs to implement trade policies, like import substitution of consumer goods to promote the development and production of the toy industry, in order to stop the entry of foreign toys. However, this does not necessarily mean that tariff barriers encourage domestic production; in some cases, instead of promoting improvement, companies go bankrupt due to an inability to compete with stronger businesses.

The changes in trade policy aimed at protecting domestic production have had, and will have, impacts on the economy of Ecuador, specifically importers and consumers of toys.

CHAPTER 2: TARIFF INVOLVEMENT IN THE IMPORT OF TOYS TO ECUADOR, PERIOD: 2008 - 2010

Introduction

One of the main instruments of Ecuador's trade policy is tariffs, which is also considered an important source of revenue for the country.

The tariff structure of imports from Ecuador is subordinate to the international standards accepted by World Trade Organization (WTO) agreements. The rates, restrictions, and constraints of the agreements express the needs of the economy of Ecuador; specifically, safeguarding against hazardous or low quality products, as well as those products that would affect domestic production.

In 2009, a safeguard measure was put in place against imports of toys, with the exception of toys from developing countries, excluding Colombia. This measure was carried out in two ways, in quantitative restrictions and tariff surcharges.

With the above measure, the Ecuadorian industry was compelled to increase the added value of domestic production, thus generating employment in the country.

Below, tariff involvement will be discussed in the importation of toys with subheading 9503001000: tricycles, scooters, pedal cars, and similar wheeled toys, etc. from 2008 to 2014.

2.1. Import Tariff

Tariffs on international trade constitute the main fundamental instrument of trade policy of a State. Taxes, or charges, are to be paid for either imports or exports. John Daniels explains that a tariff is, “the most common type of control of trade that governments apply on an internationally transported good” (Daniels, Radebaugh, & Sullivan, 2013). This means that the government of each country charges a fee on a product when it crosses its border.

The main tax that supports international trade is the one established by tariff, for both exports and imports. For countries that buy products or services in other countries this is called an import tariff, considered the most common and easiest to collect. Its main effect is to raise the price of a certain product purchased abroad, thereby promoting identical or similar goods produced within the country. The import tariff, “maintains a technical and systematic order of all imported goods with a corresponding tariff rate, which is a tax that must be paid for customs clearance of the product” (Larrea Estrada, 2013).

When a tariff on an imported product is placed, an increase in the price of the product is generated, making it easier for domestic goods to have a relative price advantage. However, an excess in the value of a service fee or an imported product may cause a national good to have no competition, which may lead to inflated prices or lowered quality of domestic goods. Usually this happens when a product is purchased abroad, via the company’s website, where prices are economical and affordable. But when the product arrives in the country, the value of the tariff causes the product to exceed the value of its domestic counterpart.

The application of import duties is considered using two points of view. The first is the economic side, i.e. the importation of goods disrupts domestic production in the

country thereby contributing to loss of employment. The second point is a deficit that may arise in the balance of payments as a result in increased imports.

Tariff Classification

The classification of the most used and known tariffs are differentiated by their “fee structure” (Larrea Estrada, 2013). The different types of tariffs are:

- **Ad Valorem Tariff:** the most used tariff, assessed as a percentage of the value of goods imported or exported.
- **Specific Tariff:** Tariff evaluated on a fixed monetary amount per physical unit of goods.
- **Joint Tariff:** a combination of and ad valorem tariff and a specific tariff.

Tariff Nomenclature

International trade, through trade exchanges, plays a major role in the economy of a country. The need for a common nomenclature worldwide is practically indispensable because each country manages different tariff nomenclatures, thus hindering international trade.

The author Larrea describes tariff nomenclature as, “the systematic organization of a group of assets or elements through a numerical series completed by descriptive definitions, conducted in an orderly manner and using a properly regulated methodology” (Larrea Estrada, 2013). Regarding the above, this comprises a set of rules and principles that help locate them within a product. Tariff nomenclatures facilitate the equal and orderly classification of all international goods and provide security and ease of interpretation at the time of negotiation or implementation of a trade agreement. They also facilitate the identification of imported goods, in order to establish an import tax or duty. Each country is free to assign any duties as part of its customs operation.

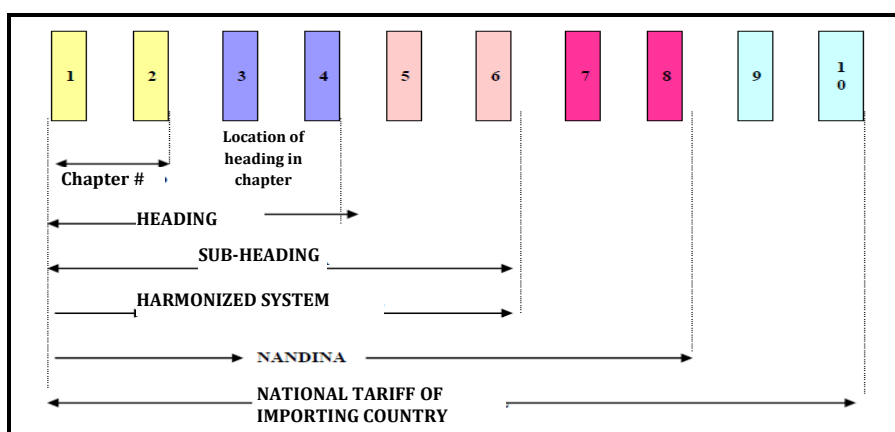
Examples of nomenclatures are the Harmonized Commodity Description and Coding Systems and the Tariff Nomenclature of the Andean Community (NANDINA).

Harmonized Commodity Description and Coding Systems: the most common system, internationally; this nomenclature contains sections, chapters, sub-chapters, headings, sub-headings, legal notes, and numerical codes.

Tariff Nomenclature of the Andean Community (NANDINA): as its name suggests, this is the nomenclature of the Andean Community of Nations and it is based upon the Harmonized Commodity Description and Coding Systems. This system is accepted and recognized worldwide and facilitates the work of importers, exporters, producers, transporters, and customs administrators.

The NANDINA Nomenclature consists of eight digits:

Figure2: Explanation of the NANDINA Numeration



Source: National Secretariat of the ALADI

- The first two identify the chapter; where goods are more related to each other.
- Four digits identify the heading; the first two digits represent the chapter and the other two represent its position within the chapter.
- Six digits; the sub-heading of the Harmonized System is a subdivision of the heading identifying the corresponding good.
- Eight digits form the NANDINA sub-heading.

2.2. Tariff policy in Ecuador

The tariff policy in Ecuador consists of public policies that attempt to protect domestic industry against foreign competition. According to Fernando Estrada, a protective tariff, “is a type of tax that seeks to generate tariff protection for a specific economic sector, branch of production, or a particular productive activity” (Larrea Estrada, 2013).

The tariff is one of the most widely used instruments of trade policy applied by the President of Ecuador, Rafael Correa, from 2007 to 2011. The Ecuadorian government has decreed the slogan “Ecuador First,” raising tariffs on nearly 1,000 imported products, including electronics, toys, spirits, textiles, building materials, and food.

With the idea of reviving the production of goods and services, and to safeguard the balance of payments, in 2007, the Ecuadorian government adopted tariff reforms based on the restriction of imports. Ecuador has evolved significantly with structural reforms aimed at creating an efficient and competitive economy.

Measures

Ecuador's Constitution states, the National Import Tariff is an instrument of trade policy, which should promote the development of productive activities in the country.

Among the tariff measures Ecuador has used to curb imports and improve the balance of trade surplus is the application of tariff surcharges and modifications to specific tariffs.

In 2009, Ecuador enacted a series of protectionist measures which contain different types of tariff barriers for products imported into the country. These were created with the goal of reducing the deficit in the trade balance and preventing the outflow of dollars due to a decrease in remittances and oil prices.

Tariff barriers affect 627 types of goods and cover three variants: the volume of imports decreases to 35%, taxes on imports increase between 30% and 35%, or charges imposed on textiles of up to \$12 per kilogram and \$10 for every pair of shoes. In the case of toys, Ecuador has added a tariff surcharge of 30% to the tariff already in force in order to safeguard the balance of payments (El Comercio Portafolio, 2009). According to Official Registry 512, on January 22, 2009, these measures were temporary and were only for a period of one year.

The measures taken by the government to limit imports were approved by the World Trade Organization (WTO). The WTO recognized the legitimacy of the measures adopted by the Ecuadorian government due to a lack of capital caused by externalities and the dollarization of the economy.

With this series of measures taken by the Ecuadorian government, one could say that its tariff policy is protectionist, since its tariff system provides competitiveness and efficiency for domestic production through tariff reductions in raw materials, supplies, and capital goods of the agricultural and industrial sector. Likewise, Ecuador seeks to level the conditions of competition with countries in the region by increasing tax revenues in particular consumer goods.

2.3. Tariff applied to the subheading for toys (9503001000)

Detail of Heading 95

Within the NANDINA Nomenclature, Chapter 95 includes everything that relates to toys, games, sports equipment, etc. This chapter is classified by 15 sub-headings of products related to the field of toys. Of these, we decided to perform an analysis of the sub-heading 9503.00.10.00, which is as follows:

Table 3: Sub-Heading 9503.00.10.00 Report

SUB-HEADING REPORT	
PRODUCT	TOYS
SECTION	XX
CHAPTER	CHAPTER 95: Toys, games and articles for general play and sport; their parts and accessories
HEADING	95.3
SUBHEADING	9503
NANDINA	9503.00.10
NATIONAL TARIFF	95.03.00.10.00
DESCRIPTION	Tricycles, skates, pedal cars and similar toys with wheels, carriages and strollers for dolls
AD VALOREM	30%
VAT	12%
ECI	0%
FODINFA	0.5%
PHYSICAL UNITS	Units
AUTHORIZATIONS AND RESTRICTIONS	COD. SUB: 0000 RESTRICTION
	Certificate of Recognition from Ecuadorian Institute of Standardization.

Prepared by: Vanessa García

Source: PUDELECO Editores S.A.

As shown in Table No. 3, the report of the sub-item 9503001000 presents all the relevant information corresponding to the values in taxes to be paid. The National Customs Service of Ecuador (SENAE) establishes the taxes that must be paid when the goods clear customs and enter the country.

2.4. Additional surcharge for tariff in force to safeguard balance of payments

Safeguards are, “measures to temporarily restrict imports of a product to protect domestic industry production affected by increased imports” (World Trade Organization, n.d.). One of the reasons for imposing a safeguard is an increase in imports; which is because imports can harm the domestic industry.

Types of safeguards:

- Global safeguards.
- Safeguards for balance of payments.
- Special safeguards for Agriculture.
- Preferential safeguards.
- Safeguards for exchange.
- Safeguards for development.

Safeguards for Balance of Payments

Safeguards for Balance of Payments are temporary import restrictions, i.e. import restrictions to protect the external financial position of a country; its regulation was issued in Article XII, Section B of Article XVIII of the GATT in 1994, “in order to prevent inefficient resource use and manage productive resources on an economic basis” (Correa, 2010).

Thus, in Ecuador, on January 22, 2009, new tariff measures established safeguards for the balance of payments on imports of certain products. However, the restriction on imports via a tariff increase was adopted to address the global financial crisis due to the growth of imports and lower income from remittances.

Ecuador applied this temporary measure, for one year, with the goal of balancing its external sector. As explained by the government at the time, the safeguards implemented were, “non-discriminatory, generally applicable to imports from all countries, including those with which Ecuador has existing trade agreements which recognize tariff preferences” (Council of Foreign Trade and Investment [COMEXI], 2009). Within these measures, an additional tariff surcharge of 30% to the sub-heading 9503.00.10.00 (toys) was applied.

Three types of restrictions under this tariff measure were issued:

- Application of an additional tariff surcharge to existing products contained in Annex 1 of Resolution 466 of the COMEXI tariff. The additional tariff

surcharge is 30% to 35% depending on the product. This application is directed to the sub-heading 9503.00.10.00 belonging to toys analyzed in this study

- Application of an additional tariff surcharge to products listed in Annex 2 of Resolution 466 of COMEXI (tires, footwear, ceramics, and textiles).
- Application of quantitative restriction value (quotas) to products listed in Annex 3 of Resolution 466 of COMEXI.

The COMEXI Resolution No. 533, published in Official Registry No. 109 on January 15, 2010, resolved a new topic of, “reducing by 10% all tariff surcharges introduced as a safeguard concept for the balance of payments, through Resolutions 466, 468, 487, and 524 of the COMEXI on January 23, 2010.” As mentioned above, sub-item 9503001000 is contained in Annex I of Resolution No. 466, which also attached to the new Resolution No. 533 in the form of a 10% reduction in its tariff surcharge .

Six months after the entry into force of Resolution No. 533, it was expected that the COMEXI would see the results obtained from the safeguard of the balance of payments, specifically if the 30% surcharge on the products listed in the previous Resolution was necessary at all.

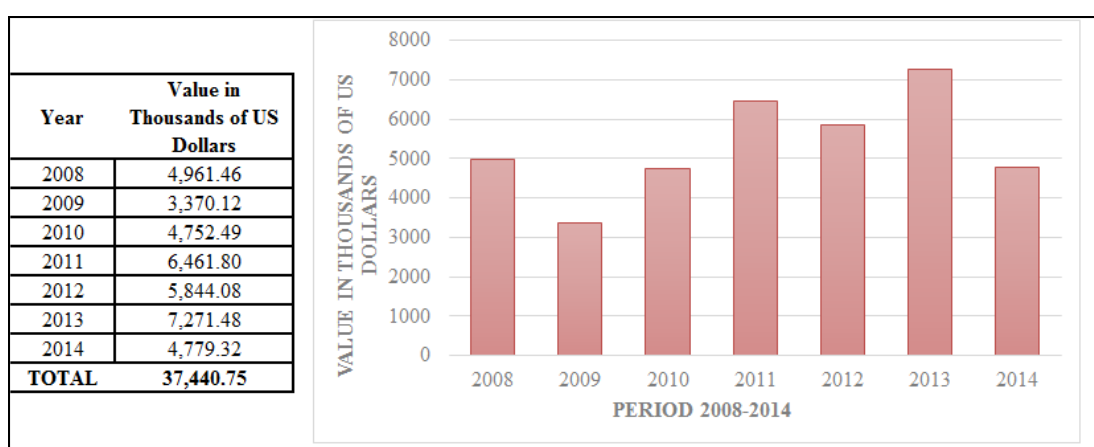
Finally, the Board of Foreign Trade and Investment (COMEXI), adopted Resolution 580, on July 22, 2010, which took effect on July 23, with the goal of, “eliminating the safeguards for the balance of payments and completely reducing the 30% tariff surcharge on all products listed in Annex I of Resolution No. 466 of the COMEXI, and its subsequent amendments.” This measure was completely eliminated in the second half of 2010.

The Ecuadorian government said that these tariff measures were taken with the intention of lowering total imports and improving the trade balance. The country

sought to equalize the balance of payments and encourage Ecuadorians to consume domestic products, thereby protecting employment and domestic production.

2.5. Graphical representations and statistics from the Central Bank of Ecuador concerning the change in the tariff measure

Figure 3: Total Imports from the Sub-heading 9503.00.10.00 from 2008 to 2014



Prepared by: Vanessa García

Source: Central Bank of Ecuador

The total imports of the sub-heading for tricycles, scooters, pedal cars and similar wheeled toys, etc. can be seen in Figure No. 3. In 2008, the total was \$4.9 million and in 2009 it was \$3.3 million, which is a reduction of approximately \$1.6 million. This was due to the action taken by the government regarding the tariff surcharge, later removed in mid-2010.

In 2010, total imports amounted to \$4.7 million, compared to 2011 which had a total of \$6.4 million, an increase of approximately 17%. In 2012 there was a total of \$5.8 million and in 2013, before the presence of quality standards under Resolution 116 of COMEX, total imports amounted to \$7.2 million, an increase of approximately \$1.4 million.

As can be seen, 2011 and 2013 reflect the greater amount of imports of this item in the analyzed period, from which we can deduce that after removal of safeguards in 2010 there was an increase in imports due to greater accessibility for Ecuadorian importers.

The following statistical tables and graphs for the years 2008, 2009, and 2010 show the effect that the safeguard tariff surcharge had on the balance of payments. A brief observation of what happened a year before and one year after the measure was implemented is also shown.

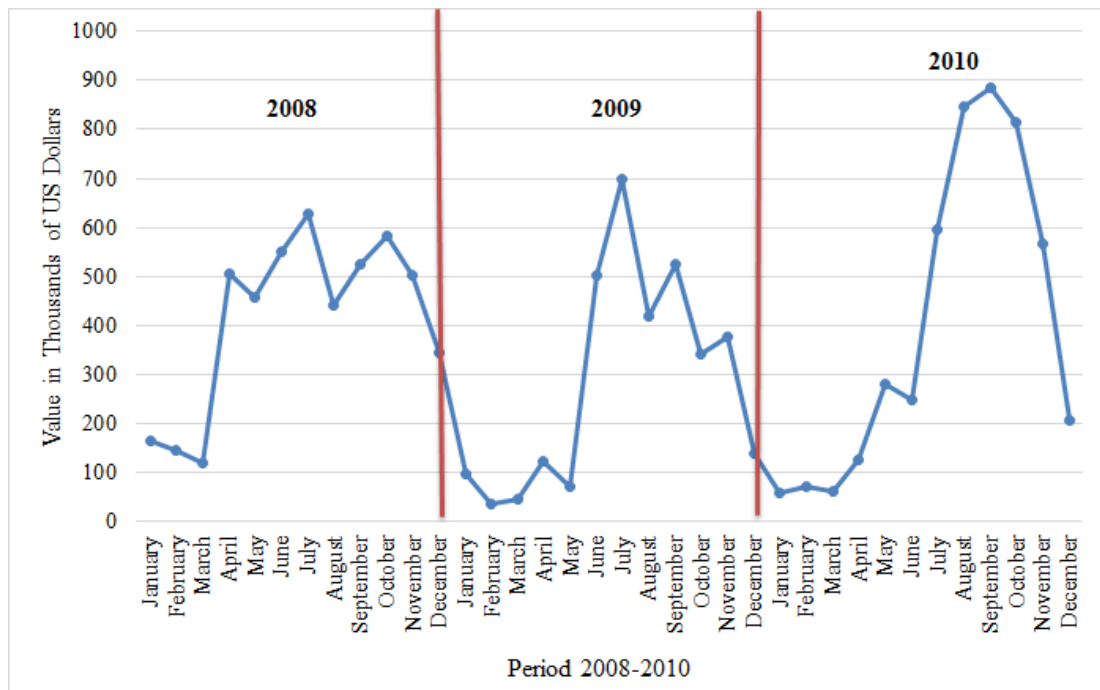
Table 4: Total Monthly Imports from 2008 to 2010 of Sub-heading 9503.00.10.00

Total Imports in months, Period 2008-2010			
	Unit: Value in Thousands of US Dollars		
Months	2008	2009	2010
January	165.34	97.92	57.25
February	143.42	35.48	71.43
March	119.5	46.29	59.97
April	504.59	121.65	124.68
May	456.41	70.2	279.55
June	550.04	501.82	247.49
July	627.4	697.66	595.18
August	441.51	417.04	845.43
September	524.09	523.18	885.23
October	583.61	342.25	814.22
November	500.73	377.39	565.21
December	344.87	139.29	206.9
Total:	4,961.46	3,370.12	4,752.49

Prepared by: Vanessa García

Source: Central Bank of Ecuador

Figure 4: Behavior of Total Imports in months from 2008 to 2010



Prepared by: Vanessa García.

Source: Central Bank of Ecuador

In Table No. 5 and Figure No. 4 we can see the total and behavior of imports in 2008, 2009, and 2010. These three years were analyzed to see if the safeguards placed in 2009 were indeed effective. Considering the total import values of each year, it can be determined that in 2009 there was a decline in the import of this sub-heading. From January to May, and July to December, there was a decrease compared to 2008. Also, with the safeguards in place until July 2010, it can be seen that the total import value was reduced compared to 2008. However, there was a large increase in July 2009, despite the safeguards in place imports of this subheading rose more than in the previous year.

Table 5: Main Exporters of the Sub-heading 9503.00.10.00, Period 2008-2010, to Ecuador

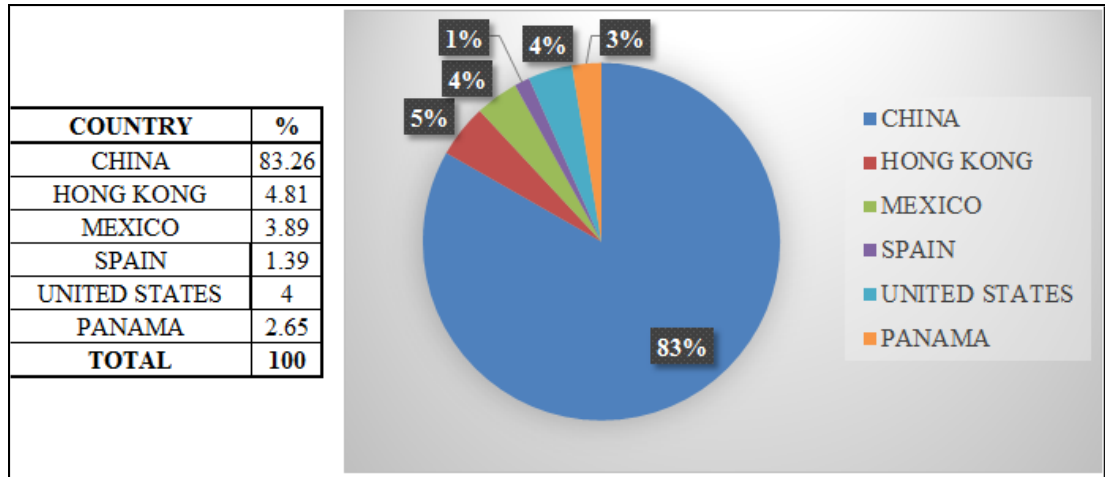
Main Exporters of the Sub-heading 9503.00.10.00, Period 2008-2010, to Ecuador								
				Unit: Value in Thousands of US Dollars				
COUNTRY	2008	%		2009	%		2010	%
CHINA	3,729.36	79.45		2,424.61	78.40		3,388.98	78.83
HONG KONG	349.70	7.45		185.06	5.98		406.79	9.46
MEXICO	226.87	4.83		296.73	9.59		190.11	4.42
SPAIN	138.90	2.96		38.99	1.26		74.61	1.74
UNITED STATES	129.03	2.75		82.49	2.67		98.82	2.30
PANAMA	120.27	2.56		64.91	2.10		139.99	3.26
TOTAL	4,694.13	100.00		3,092.79	100.00		4,299.30	100.00
COUNTRY	2011	%		2012	%		2013	%
CHINA	5,159.37	83.70		4,512.46	81.67		6,098.81	87.42
HONG KONG	215.56	3.50		255.52	4.62		89.03	1.28
MEXICO	181.69	2.95		141.21	2.56		171.97	2.46
SPAIN	111.51	1.81		48.19	0.87		41.2	0.59
UNITED STATES	287.12	4.66		384.54	6.96		353.14	5.06
PANAMA	208.65	3.39		183.63	3.32		222.56	3.19
TOTAL	6,163.90	100.00		5,525.55	100.00		6,976.71	100.00
COUNTRY	2014	%						
CHINA	4,405.21	93.37						
HONG KONG	64.7	1.37						
MEXICO	19.29	0.41						
SPAIN	24.66	0.52						
UNITED STATES	170.53	3.61						
PANAMA	33.39	0.71						
TOTAL	4,717.78	100.00						

Prepared by: Vanessa García

Source: Central Bank of Ecuador

Table No. 5 shows the main trading partners of the sub-heading 9503.00.10.00 from 2008 to 2010. Within this group, China sells the most, therefore they are the largest exporter of toys to Ecuador. Furthermore, it can be seen that these countries also reduced their export quotas of toys to Ecuador in 2009. Therefore, once again, we see the safeguards had a great affect, to include on Ecuador's top exporters.

Figure 5: Behavior of the leading exporters of Sub-heading 9503.00.10.00, from 2008 to 2010, to Ecuador.



Prepared by: Vanessa García

Source: Central Bank of Ecuador

Figure No. 5 shows us that, during the past seven years, China has contributed a total of 83% of Ecuador’s imports so, it is very difficult for other countries to compete with Chinese production entering the country. The other countries are within 1% - 5%.

2.6. Involvement of the measure

Ecuador does not have its own currency. Hence, it uses tariff measures such as safeguards to overcome its trade deficit. However, an increase in prices may have negative consequences as the product may become too expensive for the consumer.

Juan Pablo Ortiz said companies that import large volumes of toys, such as Group Gerardo Ortiz e Hijos Cia. Ltda., were affected in 2009 by the surcharge measures taken by the government. According to Mr. Ortiz, in 2009, toy purchases made by Group Gerardo Ortiz e Hijos Cia. Ltda. outside Ecuador were done with a focus on generic products, thereby compelling the company to strengthen its own production to offer more choices to the market.

As mentioned earlier, the tariff surcharge was only in effect for one year. In order for importers to sell toys in 2009 many had to liquidate their merchandise at lower prices. Quoting again the case of Group Ortiz, Mr. Ortiz explained, “it was a complex issue because even though we negotiated prices a year and a half prior to the actual purchase we had to stick to this new tariff surcharge established after the negotiations were conducted.” This problem not only affected Group Ortiz, but other importers such as JCEV, who actually had to pay double taxes.

Although this measure generated significant losses, some importers were not forced to make staff reductions. Most companies in Ecuador were not prepared to face the surcharge measure but did their best to remain afloat in 2009.

Conclusion

Safeguarding the balance of payments, which came into force in Ecuador in 2009, was a measure intended to regulate the level of imports by limiting the volume or value of goods in order to encourage reasonable rate increases and level the trade balance.

When tariffs are increased there is less competition in domestic markets. Importers stated that the high cost of tariffs inhibited them from diversifying their products being sold. Hence, business owners were forced to raise prices to cover costs and at least turn a minimal profit; however, this led to a decline in customers.

CHAPTER 3: INVOLVEMENT OF INEN QUALITY STANDARDS ON TOY IMPORTS TO ECUADOR, PERIOD: 2008 - 2014

Introduction

In December of 2013 the Ecuadorian government adopted Resolution 116 of the COMEX as a measure to reduce imports of certain products. Within this reform is the sub-heading of the Nomenclature NANDINA 9503.0010.00 corresponding to toys with wheels. These imported toys must obtain a Certificate of Recognition issued by the Ecuadorian Institute of Standardization. For this, importers of toys need to verify that their goods meet the quality requirements contained in the Ecuadorian Technical Regulations issued by the Ecuadorian Institute of Standards (INEN); quality requirements and labeling are included in the Technical Regulations 089.

Since the implementation of that resolution the toy industry in Ecuador has been affected. Since this is a restrictive measure, importers must begin complying with certain requirements. In addition, inconveniences commonly arise in the importation process and customs clearance of toys. The lack of information is also a major hindrance to the importation process.

As an aid to toy importers, the Ministry of Industry and Productivity (MIPRO) signed agreements with the importers to reduce the percentage of imports of toys by 25% and thus increase the supply of domestic production.

After reviewing the initiative, the Government's proposals, and the circumstances that led to the adoption of Resolution 116, the main objective of this chapter is to analyze the degree of damage the Reformation had on the industry and compare these results to data from the Central Bank up to the year 2014. This is done in order

to determine if there was a positive or negative impact on the toy industry in Ecuador after a year of having applied the Reform issued by the COMEX.

3.1. Analysis of quality standards

All Ecuadorian companies that want long term success must produce good quality products. Today, quality is not only a requirement but is also a business strategy for national and international growth.

According to the author Daniels, “quality can be defined as meeting or exceeding customer expectations, involving the careful design of a product or service and ensuring that systems and organizations can consistently produce the design” (Daniels, Radebaugh, & Sullivan, 2013). Quality is what the customer is willing to pay depending on what they receive in return, i.e. the product’s value.

Quality standards aim to create products and services that meet the needs of their customers. In order for a company to market quality products, quality standards must be applied to everything produced by the business.

ISO 9000

The International Organization for Standardization (ISO) promotes the global development of standardization. It was formed in Geneva in 1947 and was associated from its inception with the International Electro technical Commission (IEC), creator of global technical standards.

The ISO 9000 is a set of international standards that should be applied to any organization or entity for the structuring of its management system. The quality assurance program aims to demonstrate production processes and/or services that meet the quality requirements presented by the global standard, ISO 9000. This standard is accepted and recognized worldwide as a method for building trust with

customers through quality management that are ultimately assessed by consumer perception. (ISO Central Secretariat)

The ISO 9000 contains a series of international standards for quality systems that evaluate the effectiveness of management to provide quality products and services to its customers which also facilitate the exchange of goods and services worldwide. ISO 9001-200 are rules that facilitate the very idea of business management, specifically the QMS requirements applicable to any organization.

In Ecuador, the quality system is technically handled. This is defined as, “a set of processes, procedures, and public institutions responsible for the implementation of the principles and mechanisms of quality, as well as conformity assessments” (León Osejo, 2011).

Also in Ecuador, quality standards, also known as international standards, are a way to change the productive matrix of the country. Through the management of the relevant public bodies, on December 3, 2013, Resolution No. 116 of the Foreign Trade Committee came into effect. This resolution sought to increase the levels of quality of both imported and domestic products. Import substitutions were also adopted in this resolution that, according to the authorities, would open opportunities for local industry.

Thus, the Ecuadorian government began to require quality certificates for a group of imported products in order to protect consumers, safeguard domestic interests, and ensure product excellence.

In terms of foreign trade, this decision is reflected in the compulsory implementation and enforcement of quality standards and technical regulations. These are new requirements for foreign purchases to reduce the trade deficit and to guarantee the quality of imported goods.

It is important to mention that quality certificates not only apply to imported products but also to products manufactured domestically; since the ultimate goal of the Ecuadorian state is ensure compliance with safety, protection of life (human, animal and plant), environmental protection, and consumer protection.

3.2. Resolution 116 of the COMEX

The aim of the current Ecuadorian government is to achieve a change in its production system and thus increase exports and replace as many imports as possible. Making this change may generate more jobs and increase foreign investment, as well as level the trade balance. The import substitution plan that the Ecuadorian government has used as a tool for changing the productive matrix also facilitates the growth of exports.

The Committee of Foreign Trade (COMEX) is the public entity in charge of the Ecuador's trade policy. The COMEX regulates all matters and processes related to foreign trade, helps boost trade relations with foreign countries, and establishes strategies to encourage domestic production. The government, through the COMEX, implemented the resolutions of import limitations.

In late 2013, the Ecuadorian government adopted measures, such as new resolutions, standards, and technical regulations, to raise the quality of imported and locally manufactured products. Ecuador established Resolution 116 of the COMEX as a measure to restrict imports of certain products (Fiorentino&Dubroca, 2014).

In Resolution No. 116, issued by the COMEX, “went into effect on December 3, 2013, which established 293 tariff sub-headings that are subject to the presentation of a certificate of recognition.” (Explored, 2014) In other words, it is a resolution that seeks to improve the quality of imports by requiring a quality certificate on 293 products. The toy industry also needs to comply with this measure on imports.

The following are major changes to toy products.

RESOLVED:

Article 1. - Refurbished Annex I COMEXI Resolution 450, which contains the List of products subject to prior import controls, including the presentation of the “Certificate of Recognition” under Annex 1 of this Resolution.

Article 2.- The Certificate of Recognition will be required as a supporting document to the Customs Declaration for all goods shipped from the effective date of this Resolution and the corresponding Ecuadorian Technical Regulation (RTE-INEN) and subsequent amendments or modifications.

This Resolution was adopted at the meeting of November 19, 2013 and took effect the day following its notification to the National Customs Service of Ecuador, without prejudice to its publication in the Official Registry. (Committee of Foreign Trade, 2013)

Table6: Sub-headings of Toys Subject to Restriction

No.	Sub-Heading	Item Description	Institution	Prior Control
1	9503.00.10.00	Tricycles, skates, pedal cars and similar wheeled toys; carriages and strollers for dolls	INEN	Certificate of Recognition
2	9503.00.22.10	Things that represent crime scenes, violence, torture, or death		
3	9503.00.22.90	Other		
4	9503.00.28.00	Outfits and accessories, of clothes, shoes, hats, etc.		
5	9503.00.29.00	Parts and other accessories		
6	9503.00.30.00	Scaled models and similar models, for entertainment, including animation		
7	9503.00.40.00	Any type of puzzles		
8	9503.00.91.00	Electric trains, including rails, signs, and other accessories		
9	9503.00.92.00	Construction based		
10	9503.00.93.00	Things that represent animals or non-humans		
11	9503.00.94.00	Musical instruments and equipment		
12	9503.00.95.00	Presented in sets or outfits		
13	9503.00.96.00	Other, with a motor		
14	9503.00.99.00	Other		

Prepared by: Vanessa García

Source: Resolution No. 116 COMEX

Table No. 7 is the list of products subject to prior import control. In the case of toys, there are only 14 sub-items that need a Certificate of Recognition prior to importation; the Ecuadorian Institute of Standards (INEN) issues Certificates of Recognition.

3.3. Ecuadorian Institute of Standardization (INEN)

The control of imports was first introduced through the implementation of new rules by the Ecuadorian Institute of Standardization (INEN) to prevent the entry of millions of poor quality products.

The Ecuadorian Institute of Standards (INEN) is the Ecuadorian technical and public entity that provides standardization, regulation, and metrology, ensuring compliance with civil rights in the area of quality and productivity. The institute contributes to the Ecuadorian government's objectives of the National Plan for Good Living. The INEN was founded in 1970 and is headquartered in the city of Quito, attached to the Ministry of Industry and Productivity (MIPRO).

The Ecuadorian Institute of Standardization uses ISO-9001 certification and, “formulates proposed standards, technical regulations and procedures, conformity assessments, work plans, proposals for metrological standards and procedures, and prepares the National Standardization Plan to support the development of technical regulations for products” (León Osejo, 2011). This institution represents Ecuador before international organizations for standardization and metrology, complying with regulations, mutual recognition agreements and commitments, and maintaining joint activities with international organizations.

INEN Activities

Normalization or standardization: develops and defines the Ecuadorian Technical Standards NTE INEN, indicates how a product or service should be in order to meet consumer needs. The technical standards help improve quality, safety, and industrial competitiveness.

Regulation: comprising the preparation, adoption, and application of necessary technical regulations established in international agreements, ratified by the country to protect the objectives relating to safety, health of human, animal and plant health, as well as the preservation of the environment and consumer protection against deceptive practices.

Metrology: studies the measurement systems in any field of science. The strengthening of measurements is based on the traceability of national standards to international standards.

Thus, the INEN creates and enforces the Ecuadorian Technical Regulation (RTE INEN 089) for the safety of toys manufactured domestically or imported into Ecuador. Before they are marketed, each toy has been tested and has gone through a strict selection process. Accordingly, when an Ecuadorian toy seller purchases a product they know that the product meets the highest standards of quality, safety, and health.

3.4. Ecuadorian Technical Regulation RTE INEN 089 “Safety of Toys”

Technical Regulations provide the country with better product quality; hence, the consumer will benefit and the producer will have better access to markets that demand higher quality, like those of the “developed world.”

Article 52 of the Constitution of the Republic of Ecuador establishes that, “people have a right to goods and services of the highest quality and to be able to choose freely and accurately and not be misled about its contents and features. “Consequently, the Ecuadorian Institute of Standardization, as part of the quality requirements for the importation and manufacture of toys in Ecuador, has formulated the Ecuadorian Technical Regulation RTE INEN 089 “Safety of Toys.”

The Ecuadorian Technical Regulation 089 “Safety of Toys,” issued by the NIE, is determined by the following:

Through Resolution No. 14371, issued on August 13, 2014, promulgated in the Official Registry, and Supplement No. 276 of June 26, 2014. The undersecretariat of Quality resolves in Article 1, approved and formalized as MANDATORY, the Ecuadorian Technical Regulation RTE INEN 089 “TOY SAFETY.”

“This Technical Regulation RTE INEN 089 will take effect on November 13, 2014, and thereafter replace and terminate the Technical Regulations formalized through Resolution 13394 of October 25, 2013, promulgated in the Official Registry No. 121 of November 12, 2013 and Modification 1, formalized through Resolution 14076 of February 11, 2014 and promulgated in the Official Registry No. 189 of February 21, 2014, and the modification 2, formalized through Resolution 14187 of June 10, 2014, in which the requirements for toys are established”(Undersecretariat of quality, 2013).

RTE INEN 089 “TOY SAFETY “establishes the following requirements:

- OBJECTIVE

- .1. This technical regulation establishes requirements for toys, in order to prevent risks to the health, safety, life of people, environment and avoid practices that could mislead users when used under conditions of normal use.

- FIELD OF APPLICATION

- 2.1 This technical regulation applies to new domestic or imported toys marketed in Ecuador, intended for use by children younger than 14 years.
- 2.2 This technical regulation does not apply to toys listed in the existing NTE INEN-UNE-En-71-1.

- TARIFF CLASSIFICATION

These products are included in the following tariff classification:

Table7: Tariff Classification of Technical Regulation INEN 089

Classification	Tariff Description
95.03	Tricycles, skates, pedal cars and similar wheeled toys; carriages and strollers for dolls; dolls; other toys; scaled models and similar models, for entertainment, including animation; any type of puzzles coches y sillas de ruedas para muñecas o muñecos; muñecas o muñecos; los demás juguetes; modelos reducidos y modelos similares, para entretenimiento, incluso animados; rompecabezas de cualquier clase.
9503.00.10.00	Tricycles, skates, pedal cars and similar wheeled toys; carriages and strollers for dolls
9503.00.22.00	Dolls, including outfits
9503.00.22.10	Things that represent crime scenes, violence, torture, or death
9503.00.22.90	Other
9503.00.28.00	Outfits and accessories, of clothes, shoes, hats, etc.
9503.00.29.00	Parts and other accessories
9503.00.30.00	Scaled models and similar models, for entertainment, including animation
9503.00.40.00	Any type of puzzles
9503.00.91.00	Electric trains, including rails, signs, and other accessories
9503.00.92.00	Construction based
9503.00.93.00	Things that represent animals or non-humans
9503.00.94.00	Musical instruments and equipment
9503.00.95.00	Presented in sets or outfits
9503.00.96.00	Other, with a motor
9503.00.99.00	Other

Prepared by: Vanessa García

Source: Technical Regulation INEN 089

Below are the other requirements under the Technical Regulation INEN 089 for obtaining an INEN Certificate of Recognition, these are:

- PRODUCT REQUIREMENTS
- REQUIREMENTS FOR PACKING, PACKAGING, AND LABELING

- SAMPLING
- TEST TO ASSESS COMPLIANCE
- PROCEDURE FOR THE ASSESSMENT OF CONFORMITY

To comply with the provision of the Secretariat for Quality, one must obtain a Certificate of Conformity for an accredited or designated product in the country. Imported or nationally manufactured toys must present a certificate of conformity; this requires identifying the country of origin of each product, accredited by the SAE (Accreditation Service Ecuadorian) agency, to conduct inspections under regulation RTE INEN 089. The main problem is that there are no certifications that are accredited by the SAE for issuing certificates of conformity required by the INEN.

3.5. Replacing imports of toys in Ecuador

In the first chapter the issue of import substitution was analyzed. Here, we will briefly discuss the plan to replace imports of toys into Ecuador.

One of the items that the Ministry of Industry and Productivity MIPRO seeks to reduce with new policies is the toy, 9503. Its aim is to reduce the import volume by 2014, preventing the entry of the least 25% of toys. This figure will be replaced by small and medium enterprises in Ecuador dedicated to the manufacture of toys.

To maintain variety and avoid shortages of toys in Ecuador, companies such as Corporation Favorita, Corporation El Rosado, Pycca, Group Gerardo Ortiz, among others, have signed agreements with the Ministry of Productivity (MIPRO) for selective substitution of imports.

The decision of the Ecuadorian government to control the quality of toys entering the country and gradually replace foreign purchases with domestic manufacture has a direct impact on increasing industrialization, strengthening dollarization, and changing Ecuadorian consumers. The government's goal is, "to reduce imports of

toys by almost \$800 million, through the import substitution plan under the application of quality standards.”(El Telégrafo, 2014)

In March of 2014, the first national toy fair called, JUEGA ECUADOR (PLAY ECUADOR) was held. This was intended to promote the development of the national toy industry and encourage a sustainable succession of imports. With the participation of artisans, micro entrepreneurs, small and medium industrial enterprises in the country, the domestic production of various toys were demonstrated.

Subsequently, as a result of the beginning of the policy of import substitution, in 2014, toy production totaled about \$17 million according to the Ministry of Industries and Production. This was possible thanks to the collaboration of national companies that complied with the goal of encouraging domestic production and hindering foreign acquisitions. This amount will increase in coming years thanks to the commitment and investment of large, local industries increasing their productivity.

3.6. Graphical representations and Central Bank of Ecuador statistics regarding the change to the INEN Quality Standards and Import Substitution measure, 2013-2014.

Table 8: Total Monthly Imports, Period 2013-2014, Sub-heading 9503.00.10.00

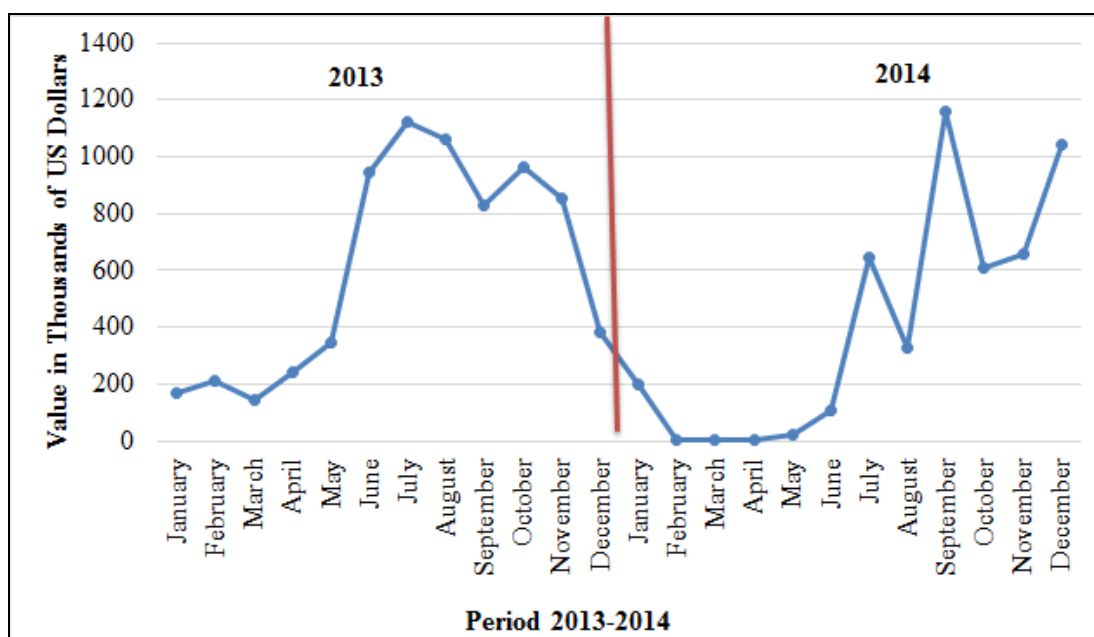
Behavior of Total Imports in Months, Period 2013-2014		
	Unit: Value in Thousands of US	
Month	2013	2014
January	168.66	196.23
February	212.49	2.98
March	145.39	5.47
April	240.79	2.08
May	343.37	18.5
June	945.36	107.19
July	1,123.25	647.45
August	1,060.26	327.09
September	831.18	1,160.81
October	961.97	609.65
November	854.81	657.82
December	384	1,044.09
Total:	7,271.53	4,779.36

Prepared by: Vanessa García

Source: Central Bank of Ecuador

In Table No. 8, one can see the total monthly imports in the years 2013 and 2014 of sub-heading 9503.00.10.00. From January to August 2013, imports of toys were growing slowly. However, in July, there was an upward trend, with a total of \$1.1 billion. Suddenly, from November to December, the total amount fell reaching an amount of \$3.8 million in imports. This was the last month of the year that Resolution 116 of COMEX was in effect.

Figure 6: Behavior of Total Imports in months, Period 2013-2014



Prepared by: Vanessa García

Source: Central Bank of Ecuador

Figure No. 6 shows the behavior of total imports from sub-heading 9503001000 from 2013 to 2014. In 2014, after the entry into force of Resolution 116 of the COMEX, the period from January to June shows a large reduction. From January to February, imports fell from \$196 million to \$2.9 million but, in the months of June and July, there was an upward trend, reaching a peak of \$647 million in July. Subsequently, September had the highest volume of imports during the year with \$1.16 billion. Finally, October was a lower month but recovered in November and December. It can be concluded that imports of toys during the year have no steady pattern of growth or reduction.

All of the decreases in 2014 were due to the inability to import toys because of the need to obtain a Certificate of Compliance, as mentioned above. Therefore, the results obtained in 2014 are a result of the import substitution plan which Ecuadorian companies were forced to be part of through agreements with the government.

**Table 9: Total Imports in US Dollars of Major Importers of Toys in Ecuador,
Period 2013-2014**

Total Imports in US Dollars of Major Importers of Toys in Ecuador, Period 2013-2014				
2013		2014		
Importer	TOTAL FOB	Importer	TOTAL FOB	
1	CORPORACIÓN FAVORITA C.A.	27,749.435.25	CORPORACIÓN FAVORITA C.A.	20,506.414.03
2	CORPORACIÓN EL ROSADO S.A.	15,248.733.08	CORPORACIÓN EL ROSADO S.A.	7,937.627.69
3	FERRERO DEL ECUADOR S.A. INDUSTRIA DE DULCES Y ALIMENTOS	6,887.869.94	FERRERO DEL ECUADOR S.A. INDUSTRIA DE DULCES Y ALIMENTOS	4,759.822.17
4	GERARDO ORTIZ E HIJOS CIA. LTDA.	3,992.727.83	GERARDO ORTIZ E HIJOS CIA. LTDA.	4,525.205.82
5	ALMACENES ESTUARDO SANCHEZ S.A. ALESSA	3,428.742.37	PYCCA S.A.	2,258.406.08
6	TIENDAS INDUSTRIALES ASOCIADAS TIA S.A.	2,922.286.90	TIENDAS INDUSTRIALES ASOCIADAS TIA S.A.	2,020.746.35
7	COMPAÑÍA ANOMINA EL UNIVERSO	1,703.078.18	GRUPO EL COMERCIO C.A.	1,787.241.10
8	GRUPO EL COMERCIO S.A	1,555.602.54	ALMACENES ESTUARDO SANCHEZ S.A. ALESSA	1,731.464.14
9	PYCCA S.A.	1,531.230.93	SOCIEDAD PREDIAL Y MERCANTIL MILATEX S.A.	820.019.40
10	SOCIEDAD PREDIAL Y MERCANTIL MILATEX S.A.	1,441.904.44	IMPORTADORA CUMPLEAÑOS PALACIOS CORDERO CIA. LTDA.	714.693.00
11	FARMACIAS Y COMISARIATOS DE MEDICINAS S.A. FARCOMED	991.672.58	DISTRIBUIDORA IMPORTADORA DIPOR S.A.	595.485.58
12	DISTRIBUIDORA IMPORTADORA DIPOR S.A.	905.177.67	GRUPO IMAR S.A. GRUPIMARSA	570.767.58
13	PALACIOS NARANJO CORSINO EDUARDO	853.422.76	IMPORTADORA Y EXPORTADORA CARMIRANDA S.A.	495.537.98
14	IMPORTADORA CUMPLEAÑOS PALACIOS CORDERO CIA. LTDA.	774.257.70	FARMACIAS Y COMISARIATOS DE MEDICINAS S.A. FARCOMED	469.066.63
15	GRUPO IMAR S.A. GRUPIMARSA	762.171.87	PONDARMAT CIA. LTDA.	415.514.28
16	BEBELANDIA S.A.	679.055.76	PICA PLASTICOS INDUSTRIALES C.A	375.817.54
17	SOYOR S.A.	636.414.55	IMPORTADORA COMERCIAL LARTIZCO CIA. LTDA.	359.511.48
18	CELLNEL S.A.	628.125.14	PALACIOS NARANJO CORSINO EDUARDO	353.064.21
19	TARJEAL CIA. LTDA.	608.141.88	IMPORTADORA MARIA MERCEDES IMMCAO S.A	265.017.11
20	PICA PLASTICOS INDUSTRIALES C.A	608.141.88	BEBELANDIA S.A.	211.454.17
TOTAL FOB		90,510.652.26	TOTAL FOB	56,288.558.09

Prepared by: Vanessa García

Source: CobusGroup Ecuador

Table No. 9 is the list of the top 20 importers of toys in Ecuador in 2013 and 2014. The top 4 for both years are: Corporation Favorita, Corporation El Rosado, Ferrero del Ecuador S.A., and Gerardo Ortizz e Hijos. If the total for both years are compared, it can be determined that, in 2014, imports of toys went down nearly \$33 million. Some companies that were within the top 20 in 2013 were not in the top 20 in 2014, as in the case of companies like: Soyor S.A, Cellnel S.A.,and Tarjeal Cía. Ltda.

3.7. Involvement of the measures

Quality standards, such as import substitution plans, are obstacles that the Ecuadorian government imposed to restrict imports and encourage domestic production. Resolution 116 of COMEX required a Certificate of Recognition be obtained for all imported toys. These regulations were imposed by the Ecuadorian Institute of Standards INEN in April of 2014. Toy importers were affected by this mandatory provision mostly because there were no certifiers that issued the certificates required by these agencies.

In the interview with Juan Pablo Ortiz of Grupo Ortiz regarding quality standards, the company was affected in terms of documentation, as licenses and other requirements for compliance with the regulation must be accredited by entities recognized by the Ecuadorian Accreditation Service (SAE). In this case, the documentation is quite difficult to get because some countries, like China, do not have certifications that are endorsed by the SAE.

In a second interview with Comercializadora JCEV in the city of Cuenca, we analyzed once again the measures taken by the government, as well as the import substitution plan. Luis Calle, representative of Comercializadora JCEV said that the measures taken by the government are basically measures affecting import restriction. The term restriction is not very popular; but unfortunately, the reality is the INEN standards applied to toys are a very difficult to comply with in the country. Many products can meet the standard, but when evaluated by the INEN there are too many obstacles for agencies to obtain the necessary permissions.

Although quality standards are intended to help improve quality within Ecuador, the process to meet these requirements generates extra costs that effectively increase the cost of the product, ultimately affecting the consumer. For most importers, like JCEV which imports affordable toys, a product certificate that meets the Ecuadorian

standard generates high costs at about \$8,000 per item, code, or model. Toys imported that have a large variety of characters, such as Disney, must have a certificate for each one according to regulations set forth by the INEN in 2013. Thus, the time it takes to process the paperwork can cause delays in product sales, debts, and even losses to the company.

Unfortunately, so far, companies have not been able to get certifiers that issue the documentation required by the INEN for toy imports. However, despite all these obstacles, the Ministry of Industry and Productivity imposed agreements with importers to commit to reduce their imports by 25-30%, thereby encouraging domestic production. Both Group Ortiz and JCEV signed these agreements with MIPRO to support the change of the productive matrix of the country.

Another thing caused by quality standards is a shortage of toys. Consumers do not have many options and are compelled to buy domestic products. Nevertheless, products made domestically are regulated by the same INEN standards as imported products.

Finally, Ecuador as a country does not have its own currency; because of this, it cannot devalue it. Therefore, the only way to create money is by keeping as much of it in the country as possible. It is believed that for this reason, Resolution 116 of the COMEX and the import substitution plan was created.

Conclusion

When Resolution 116 of the COMEX came into force, many toy importers were affected. It is very difficult to find a company that issues Certificates of Conformity that the Ecuadorian Institute of Standardization requires.

In the statistics of 2014, we can see a reduction in imports of toys due to importers not being able to meet the requirements demanded by the INEN. The process to get a Certificate of Conformity in a country such as China is quite complex. For generic toys, which are imported the most, meeting the quality requirements can be a bit tricky. That is why importers of toys are forced to seek other outlets to cover their costs and turn a profit.

CONCLUSIONS

1. The changes in trade policy to protect domestic production always impact on the economy of Ecuador, creating conditions that affect importing enterprises and the consumer.
2. The National Plan for Good Living encourages domestic production through a policy of import substitution. It is expected to have success with the participation of all sectors in each of the established phases. To achieve this success, technology, resources, and imports of raw materials and capital is required. Both contributions and constructive criticism will help establish new development strategies and improve the productive matrix of Ecuador thereby increasing exports and competitiveness of these exports abroad.
3. Increased tariffs on a number of products entering the country cause an increase in the prices of these goods, generating negative consequences for several importers of toys. Thus, importers are forced to raise the prices of their products to cover their costs, generating minimal gains. This type of measure adopted by the government to improve its trade balance is a little hasty, since the increase in tariffs in the short term directly affects the economy of Ecuador's citizens. These measures can have positive outcomes as long as they are prefaced with studies that show effective results.
4. As a result of the Ecuadorian government implementing tariffs, import substitutions, the need for a certificate of recognition of product quality, importers of toys in Ecuador have decreased their purchases from suppliers, as many of them do not have enough knowledge of how to obtain the documents required by the INEN.

5. Finding agencies that issue certificates, and are accredited by the Ecuadorian Accreditation Service in China, is difficult for importers of toys since there are no agencies that emit said certificates. In the end, the most affected are the importers and the consumer.

RECOMENDATIONS

1. Import duties are intended for the protection of domestic production or the financing of the national budget. I believe that in the case of a tariff surcharge on toys, the Ecuadorian government should focus more on products that need this increase. It should not make hasty decisions without mitigating the negative consequences. While the tariff surcharge on toys in 2009 was not good and lasted only one year, importers were severely affected in that short period. I think the government should not take such excessive measures and for such a short amount of time.

2. While COMEX Resolution 116 seeks to improve the quality of imported toys through a certificate of product quality, I believe that these measures should not be so brusque, seeing as how importers do not have enough time to comply with said measures. The government should consider other alternatives to help importers at least acquire a certain percentage of toys and not impose difficult and impossible obstacles to fulfill.

3. The government should be aware that further import restrictions can eventually lead to increased smuggling in the country. This activity can clearly be seen in the following years creating substantial profits and hurting the domestic industry. So, I recommend adopting levels of implementation and control laws in order to allow merchants to prepare themselves to meet their obligations.

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