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TOPIC: The Impact of Dollarization on Non-oil Exports of Ecuador: periods from 1990-1999 and 2000-2012

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Dedication

I dedicate this thesis to my parents, thank you for having given the best of yourselves to me; also to my three sisters and my dear nephews who, despite the distance, are always present; also, to my brother-in-law Nicolas.

"Happy is he who keeps nothing for himself"
Saint Francis of Assisi

I want to infinitely thank everyone who assisted me in the completion of this work, economist Andrew Robalino, engineer Marinés Acosta, economist Luis Ordonez Tonon, and all my colleagues with whom I shared many hours of learning.

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ABSTRACT

Ecuador adopted a system of dollarization in the early 2000s. This decision was the final alternative to a series of events and bad decisions that left the Ecuadorian economy in a weakened status, and had caused both political instability and social unrest. While it is true that this decision by the government resulted in both costs and benefits to the country, one of the undeniable results of dollarization was the country´s loss of its ability to control its own monetary policy, which as economic theory indicates, has a direct impact on Ecuadorian production capacity through foreign price reductions due to currency devaluation. Considering this factor in addition to the ground lost by the national production sector to imported products (which can now be acquired with greater ease given the greater value of the dollar as compared to other currencies) the picture seems more negative. However, according to statistics and commercial trade records during the last 12 years, exports have increased considerably.

This leads us to ask ourselves about the factors that provoked this increase—which despite the changes created by dollarization, particularly the loss of the ability to devalue the currency—have resulted in an increase not only in non-oil Ecuadorian exports, but also in production and diversity of products offered during this time period. The central goal of this analysis is to introduce several possible causes for the growth of Ecuadorian exports within the framework of the dollarized economy, and to analyze the impact of dollarization on the national exporting sector.

GENERAL OVERVIEW

The dollarization of Ecuador, adopted in January of 2000, left the country without the ability to manage its own monetary policy and therefore it also eliminated the possibility of devaluing its currency to facilitate competitiveness through export prices in the international market. This thesis recount the history of dollarization, as well as the transition of the country to the dollar; to give an analysis of the export sector during the 1990s, i.e. ten years prior to dollarization; to analyze the behavior of the trade balance, including Ecuador's main trading partners and non-oil export products. This analysis will help better contextualize the condition of the export sector before dollarization.

This paper briefly analyzes the major perspectives on the issue of dollarization: the fears; the positive expectations it created at the moment of its implementation; the economic conditions of Ecuador at the beginning of the new millennium; its impact on the non-oil export sector during the period of 2000-2012; as well as the behavior of the trade balance, including Ecuador's trading partners and export supply. This study also focuses on the political changes in Ecuador, during the 1990s and the 2000s, which created institutions seeking to promote and/or strengthen foreign trade by creating a legal framework that supported both the establishment and work of the institutions as well as trade and export activity in the country.

Through the analysis and study of all the aforementioned topics we can compare on the issue of exports, specifically: increases from one period to another, increases and additions of new products to the export supply, decreases or increases of traditional exports, openness to new trading partners, and the creation and establishment of a legal framework as well as institutions aimed at foreign trade. These comparisons are supported by the opinions of people who work in these fields, who, from their point of view, can give an enhanced perspective on the issue. Finally this paper seeks to demostrate the impact of the dollarization on Ecuador's non-oil exports; particularly showing if there has been an improvement or deterioration of the export sector with reference to the increase or decrease of export supply, increased exports of traditional products, and the establishing of new business partners who purchase such products.

CHAPTER I

1.1.1. Introduction

This chapter will first review general concepts and definitions of exports and how they are classified in Ecuador. Also, we will also analyze the behavior of the trade balance in the 1990s, with the aim of expressing a clear idea of the behavior and factors that affected Ecuador's exports during these years. The third point of analysis in this chapter is to examine in more detail the non-oil exports between the years 1990 to 1999. The following sections of this chapter discuss the composition of export supply and major export destinations during this period.

1.1.2. General Definition of Exports

The word *export* or *exportation* is defined by Collins English Dictionary as the action to carry out the sale of a set of goods abroad; other economic dictionaries share this definition by adding not only those goods or property but also services, which in turn, together with the products or goods, become known under the term of exports.

1.1.3. Classification of Exports in Ecuador

In Ecuador, the institution in charge of conducting the statistical and historical export control is the Central Bank of Ecuador. This institution, in line with the international standards and suggestions, classifies exports into three categories according to their economic and historical importance.

The first category is the export of oil, which includes exports of crude oil and its derivatives. The second category of exports from Ecuador are the exports of traditional products, these are: banana and plantains, cocoa, coffee, shrimp, tuna, and fish; as well as the processes associated with these products. Within this second category there are products of historical importance to Ecuador's economy. The last category contains Non-traditional exports which includes all products outside of the first two categories.

1.1.4. Analysis of the Foreign Sector, non-oil trade balance, and its behavior during the period of 1990-1999

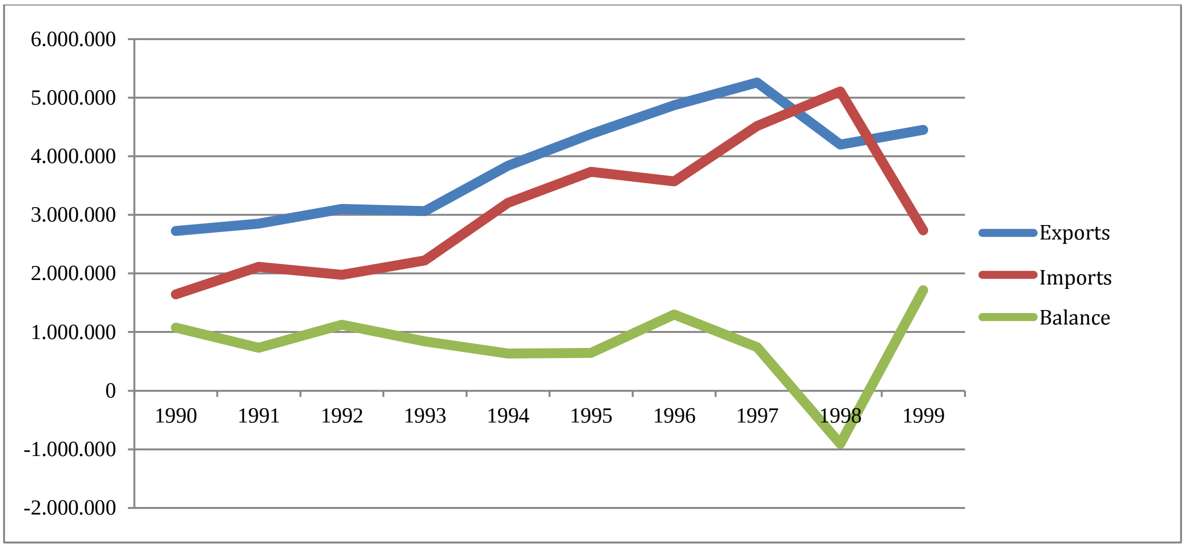
In the years analyzed, and as shown in the table below, exports had steady growth from 1990 to 1998. Almost even with imports, the data showed an increase with the growth in exports but, unlike these exports, declined significantly in 1999.

Table No. 1 Ecuador Trade Balance 1990-1999

THOUSANDS OF U.S. DOLLARS			
Year	**EXPORTS**	**IMPORTS**	**BALANCE**
1990	2,724,134.00	1,647,334	1,076,800
1991	2,852,012.00	2,116,511.50	735,500.50
1992	3,101,527.00	1,976,945.30	1,124,581.70
1993	3,065,615.00	2,223,090.60	842,524.40
1994	3,842,683.00	3,209,424.30	633,258.70
1995	4,380,706.00	3,737,209.50	643,496.50
1996	4,872,648.00	3,570,889.00	1,301,759.00
1997	5,264,363.00	4,520,051.30	744,311.70
1998	4,203,049.00	5,109,930.30	-906,881.30
1999	4,451,084.00	2,736,902.20	1,714,181.80

Source: Central Bank of Ecuador
Prepared by: Author

Graph No. 1 Evolution of Exports, Imports, and Trade Balance of Ecuador 1990-1999



Source: Central Bank of Ecuador
Prepared by: Author

During this period, there was a steady increase of exports and imports; however, thanks to specific exogenous events and occasions in unfavorable conditions of the market, a significant increase in the balance is not reflected. It is worth noting the importance of oil exports because if they do not form part of Ecuador's exports obviously the trade balance would have shown negative results in most years. The following explains in more detail what happened to exports, imports, and the management of exchange rate policy in recent years.

The increment of exports at the beginning of the review period was due largely to the increase in the price of oil exports, which was influenced by the war in the Persian Gulf. Second, banana exports registered a record figure in 1990 which added to the decline in imports of capital goods; which resulted in a significant surplus in the trade balance in the first year of the reporting period.[1]

In the next years exports continued to grow as well as imports, which is reflected in the behavior of the surplus trade balance in 1991, oil prices declined compared to 1990 from $20.20 to $16.23 per barrel;[2] however, the demand for bananas worldwide continued to rise, leading to another high record for this fruit's exports.

In 1992 oil exports recovered from the previous period, the increment in the volume of production and the rise of oil prices are reflected in the total exports. Traditional exports, despite not showing poor performance, decreased from the previous year due in part to the redution in demand for bananas.[3]

Starting 1993 the global economy has experienced a growth of 4%, thanks to greater participation in the Asian region and the countries of the former Union of Soviet Socialist Republics (USSR). Meanwhile, the Latin American region has had similar growth in previous years with progress highlighted in terms of price stabilization in the region.[4] In 1993, in Ecuador, new policies and laws seeking to promote the growth of the economy were implemented for the modernization and privatization of strategic

[1] CENTRAL BANK OF ECUADOR. 1990 "A*nnual Report 1990*," pgs. 19-20
[2] CENTRAL BANK OF ECUADOR. 1991 "*Annual Report* 1991," pg. 128
[3] CENTRAL BANK OF ECUADOR. 1992 "*Annual Report 1992*," pg. 130
[4] CENTRAL BANK OF ECUADOR. 1993 "*Annual Report 1993*," pg. 23

sectors.[5] Also in 1993 the "Tokyo Agreement on Market Access," made some progress. The following year gave way to the "General Agreement on Tariffs and Trade" which was a significant step in the completion of the Uruguay Round.

The behavior of the trade balance this year is attributed to the exchange rate policy adopted since the government opted for a system of flexible and fully convertible exchange rates. Due to these exchange rates set by the Central Bank of Ecuador (CBE), the country experienced higher inflation.

The CBE explains:

"Under this new scheme, foreign trade and private capital flows operating in the free exchange market where rates fluctuate according to supply and demand, with continued participation of the Central Bank through a table changes. For its part, the external transactions of the public sector, where oil are included, are made at the exchange rate of the Central Bank, which is set from 1993, depending on the price of the free market."[6]

According to information from the International Monetary Fund and the Central Bank of Ecuador, there has been a significant depreciation in the real exchange rate, using 1985 as the basis for calculating this year. The reason for this is that the establishment of a type of flexible exchange rate did not affect the export sector very strongly; on the other hand, the effort that companies had to make to improve their efficiency and productivity was influenced by them having to maintain their competitiveness in international markets.

The State modernization proposal in 1992 succeeded, to some extent, in achieving better and greater private sector participation in the economy but there are no figures that can accurately quantify how many of those private enterprises contributed to the country's exports, mostly because the "State Modernization Act, Privatization, and

[5] ACOSTA, A. 2006 "*A Brief Economic History of Ecuador,*" pg. 25
[6] CENTRAL BANK OF ECUADOR. 1993 *"Annual Report 1993",* pg. 39

Performance of Public Services by the Private Sector," issued in December 1993, sought to disassociate the State in activities that were considered exclusive to this.[7]

Another important aspect of this period is the growth in export supply of nontraditional products that can be linked to the above-mentioned process and the continuing decline in the price of traditional products, in addition to oil. According to the CBE, this fact is also linked to increased productivity and technical improvements as well as human resources within Ecuador's economy.

As for foreign trade figures, in 1993, oil and traditional products exports experienced a decrease as a result of lower international prices of these products; however, non-traditional exports recorded a significant increase.

In 1994 the trade balance maintained a positive balance, but the balance was 24.84% lower than in 1993. Exports later went up again due to the increase in the price of a barrel of oil and the recovery of exports of traditional products; however, a decline of more than $209 million in the balance of trade surplus was due to an increase in imports of capital goods and a consumption of about 44.37% more than in the previous period. Exchange rate stability was maintained as the main anti-inflationary strategy.[8]

In 1995, Ecuador became a member of the World Trade Organization (WTO). As a main benefit of belonging to this organization, Ecuador enjoyed tariff reductions that members of the WTO offer to one another; however, this required Ecuador to have a better productive performance in subsequent years.[9]

In 1995, the trade balance had a positive balance of $643 million, similar to the previous year's value with an increase of only 1.62%. During this period total exports grew by approximately 14%; equally imports continued to increase in value this year, approximately $527 million more than in 1994. It is worth noting that the State made

[7] CENTRAL BANK OF ECUADOR. 1993 *"Annual Report 1993",* pg. 46
[8] CENTRAL BANK OF ECUADOR. 1994 "*Annual Report 1994*," pg. 35
[9] CENTRAL BANK OF ECUADOR. 1995 *"Annual Report 1995,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 citado el 01/09/2013 15:19 PM.

substantial purchases of military equipment abroad which contributed significantly to the increase in imports.[10]

During 1996, the trade balance again showed a positive results and an increase in the credit balance of approximately $658 million over the previous year. The surplus in the balance is attributed to increased exports, although it was not a large increase: this remained constant over the previous period reflected in a growth of approximately 11%, within this increase the value of oil exports rose 14.30%; in addition, a low volume production was offset by an increase in the value of a barrel of oil with an average of $18 per barrel, according to information from the ECB.

Non-traditional exports continued to show a similar behavior to the previous two periods with an increase of 30.04% over 1995, reaching a new record with a total value exceeding one billion dollars. These exports also benefited from the depreciation of the real exchange rate in December of that year.[11]

Another aspect that benefited the existence of a positive trade balance in the country during this period was the decline in imports attributed to low consumption of the private sector within the country; according to the CBE, factors such as the non-election year change of government, policy changes, an energy crisis, the effects of the Mexican economic crisis in the region, and a contraction of the domestic economy resulted in lower demand for consumer goods and imported capital.

A positive trade balance also remained in 1997 but was not as high as the previous year's performance since the surplus of 1997 was $557 million less than in 1996, this largely due to increased imports as indicated in the report by the CBE.

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[10] CENTRAL BANK OF ECUADOR. 1995 *"Annual Report 1995,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/01/2013 at 2:39 PM

[11] CENTRAL BANK OF ECUADOR. 1996 *"Annual Report 1996,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/11/2013 12:00 AM

An increase in imports of almost 27% is attributed to the acquisition of consumer goods, raw materials, capital goods, and oil (lubricants and fuel); likewise, a growth in construction caused a similar increase in imports of goods for this sector.[12]

Exports meanwhile had lesser growth in 1996, reaching only 8.04%; this underperformance is attributed in part to the decline in the price of oil per barrel recorded in 1997 where average price per barrel stood at $15.40, almost three dollars below the average price achieved during the previous year. Petroleum products were affected by lower production and lower international prices according to the 1997 report prepared by the CBE.

1998 was the first year that had a negative trade balance in the analyzed period with a negative result of approximately $906 million, the deficit in the trade balance was mainly due to the contraction of exports and the low price of a barrel of oil as well as lower oil production in the country.[13]

Total exports shrank by 20.16% while imports increased by 13.05% in the same period which partly explains the behavior of the trade balance. Oil exports were lower by about $634 million in the previous period, this due to the low average price per barrel of oil by the end of the year which stood at $9.20 per barrel. This situation also had a negative effect on sales of petroleum, which also declined, compared to 1997.[14]

Due to the slowing economy and the continuing crisis in the country, the Central Bank of Ecuador made an adjustment in the band of fluctuation, which was still in force by 1998. The band of fluctuation is located between a fixed exchange rate and one free floating, so that the central parity increased from S/. 3,800 per dollar to S/. 5,000 per dollar at the end of the period.

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[12] CENTRAL BANK OF ECUADOR. 1997 *“Annual Report 1997,”* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/11/2013 at 5:14 PM

[13] CENTRAL BANK OF ECUADOR. 1998 *“Annual Report 1998”,* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/12/2013 4:51 PM

[14] CENTRAL BANK OF ECUADOR. 1998 *“Annual Report 1998,”* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/12/2013 at 4:51 PM and on 09/12/2013 at 5:18 PM

Foreign exchange shortages following the closure of credit lines, linked to the low price of a barrel of oil and the crisis in Asia, had its effect on the exchange rate on the official market as it stood at S /. 6,521, this being the biggest purchase devaluation in the period; while the average of the free market was S /. 5,446.44 and S /. 6,765.00 for the purchase and sale respectively at years end.[15]

The real exchange rate, which is the indicator of the prices of a basket of goods and services versus the prices of the same basket of goods and services from another country, i.e. measuring the relative value of two or more currencies, continued to fall. However this did not result in any advantage for exports as these were much lower than those of previous periods. By December 1998, the real exchange rate showed a devaluation of 11% over 1997.

The economy recovered in the last year of the analyzed period, so that in 1999 Ecuador's trade balance recorded a surplus of $1.714 billion; recovery of exports and the rise in the price of a barrel of oil positively influenced this result.

Meanwhile in 1999, imports decreased as a result of the economic recession, limited demand for consumer goods, and capital. Moreover, as indicated by the CBE, the strong devaluation and illiquidity in the country slowed not only imports of consumer goods and capital but also of fuels, lubricants, as well as raw materials. According to the CBE, there was a decrease in the total value of imports of 46.44%.

It should be noted that, in 1999, the crisis that led to the dollarization of the economy in 2000 was caused by the annual depreciation of the *Sucre*, which reached a record high of almost 196%. This was an unsustainable system that was driving the exchange rate in the country; thus, the Government changed the floating exchange rate for that year.

While this system succeeded in stabilizing the exchange rate for a time the financial sector crisis in the country led to new pressures on the exchange rate. "The current

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[15] CENTRAL BANK OF ECUADOR. 1998 *"Annual Report 1998,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/12/2013 at 5:30 PM

floating exchange rate meant that the value of the dollar was exclusively determined by market behavior, without the guidance of a path defined by the monetary authority."[16] In this context, the exchange rate on the open market at the end of the period stood at S /. 19,858.00 per dollar, affecting imports and consumption in the country.

1.1.5. Non-oil Exports

During this period of analysis, non-oil exports increased, even though many of these are dependent on exogenous factors and are highly dependent upon international prices and volume of production, during this period, nontraditional product exports became increasingly significant.

[16] CENTRAL BANK OF ECUADOR. 1999 *"Annual Report 1999,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/13/2013 at 3:07 PM

Table No. 2 Non-oil Exports 1990-1999

Thousands of US Dollars							
TOTAL TRADITIONAL + NON TRADITIONAL	**TRADITIONAL**						**NON TRADITIONAL**
	TOTAL	**BANANA/PLANTAIN**	**COFFEE AND PROCESSED COFFEE**	**SHRIMP**	**COCOA AND PROCESSED COCOA**	**TUNA AND FISH**	
1,305,749.00	1,119,654.00	471,078.00	129,890.00	340,288.00	130,689.00	47,699.00	186,095.00
1,699,293.00	1,480,817.00	719,630.00	109,953.00	491,388.00	112,770.00	47,076.00	218,476.00
1,756,200.00	1,438,431.00	683,376.00	82,132.00	542,424.00	74,888.00	55,612.00	317,769.00
1,808,962.00	1,293,397.00	567,580.00	117,093.00	470,630.00	83,299.00	54,796.00	515,565.00
2,537,855.00	1,847,843.00	708,369.00	413,818.00	550,921.00	101,821.00	72,913.00	690,013.00
2,850,769.00	1,996,021.00	856,633.00	243,872.00	673,494.00	132,976.00	89,046.00	854,749.00
3,123,973.00	2,012,433.00	973,035.00	159,544.00	631,469.00	163,580.00	84,805.00	1,111,540.00
3,707,097.40	2,565,200,53	1,327,177.21	121,454.28	885,981.79	131,750.50	98,836.75	1,141,896.87
3,280,104.00	2,177,119.00	1,070,129.00	105,067.00	872,282.00	47,100.00	82,541.00	1,102,985.00
2,971,402.00	1,815,337.00	954,378.00	78,102.00	607,137.00	106,345.00	69,375.00	1,156,065.00

Source: Central Bank of Ecuador
Prepared by: Author

Table No. 3 Thousands of U.S. Dollars

Year	Total Oil Exports	Total Non-oil Exports
1990	1,418,385	1,305,749
1991	1,151,719	1,699,293
1992	1,345,326	1,756,200
1993	1,256,653	1,808,962
1994	1,304,827	2,537,855
1995	1,529,937	2,850,769
1996	1,748,675	3,123,973
1997	1,557,266	3,707,097
1998	922,945	3,280,104
1999	1,479,682	2,971,402

Source: Central Bank of Ecuador
Prepared by: Author

In 1990, non-oil exports fell short of oil exports, but these had significant growth due to an 18.9% increase in the value of exports of bananas as a result of an approximate increase of 25% in its export volume. Meanwhile, during this year, exports of non-traditional products, especially agricultural products, showed a decrease in exports as a result of poor production conditions caused by climatic factors.[17]

By 1991, non-oil exports performed better than oil exports, accounting for 59.6% of total exports according to the Central Bank of Ecuador. Again, banana exports showed a historic performance with an export volume of 2.7 million tons. Similar situation occurred with shrimp exports due to an increase in demand in new markets, mainly in Europe. Cocoa experienced a decline in value and volume due to the abundance of grain globally, as well as lower prices in the international market; there was also a decline in cocoa and coffee based products.

Exports of fishmeal experienced a small recovery from the previous year with an increase of approximately 23.8%, outperforming other agricultural products, including the manufacture of metals.

[17] CENTRAL BANK OF ECUADOR. 1990 *"Annual Report 1990,"* pgs. 21-23, 130

In 1992 non-oil, as well as oil and its derivatives, exports had the same behavior; their total value was approximately $1.756 billion dollars, with exports of traditional products being the largest amount. Bananas remained the main non-oil export from Ecuador; however, exports of banana during the period decreased due to oversupply of the product. According to the annual report by the CBE, the incursion of Central America and the Caribbean in the export of bananas directly affected the aforementioned oversupply.

Meanwhile, shrimp sales continued to show increases totaling $542.4 million dollars, about 7.0% more than the previous year. Exports of cocoa and its derivatives followed the trend of previous years; the decline in exports of this category was attributed to the decline in international grain prices and the total export volume. Other products that reflected a substantial growth were fish and fish products such as fish meal, canned tuna, and other seafood.

Non-traditional exports showed a growth of 18% over 1991, specifically the exports of non-traditional agricultural products such as fresh flowers and rare woods.[18] Manufacturing had an increase over the previous period, due to an increase in exports of primary products, whose value reached an estimated $256.6 million during 1992.

In 1993, restrictions, low prices, and other external factors caused the share of exports of traditional products to reduce to 42%. Production and demand for bananas was affected by the restrictions on the product by the European Union, reducing marketing by about 10% compared to the previous year.[19]

During this period exports of traditional goods (bananas, cocoa, tuna and, shrimp) decreased, as well as oil exports, due to the low market prices for these goods. Shrimp exports experienced a decrease due to problems related to the production thereof and the involvement of other producers in the market and causing it to only reach an export volume of approximately 18%.

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[18] CENTRAL BANK OF ECUADOR DEPARTMENT OF EDUCATION. 2002 *"Annual Bulletin No. 24,"* pgs. 124-126.
[19] CENTRAL BANK OF ECUADOR. 1993 *"Annual Report 1993,"* pg. 43

The items that make up traditional export products showed disappointing results in 1992. The volume of banana exports decreased by 4.8%, shrimp by 15.5%, and tuna and fish declined by 0.2%.

Nontraditional products had an approximate 17% share in total exports. Non-traditional exports reached a growth in value of approximately 60% over the previous period; the emergence of products such as flowers, vegetables, mineral products, non-traditional foods, chemicals, and pharmaceuticals increased its total export volume by 40.04% this year.

1994 showed completely opposite results to the previous year as all traditional products recorded an increase in value, largely attributed to the improvement in prices of these goods in the international market. Within this growth and recovery, coffee and coffee related products had an increase of approximately 253% compared with 1993, a record for production and exportation of these products; the level reached in 1994 amounted to $413 million.

During 1995, exports of traditional products continued to recover, most of these recorded increases of 20% to 22% on their total values with the exception of coffee and coffee products which, after reaching a record value of its exports fell. The total export value of coffee was 41.07%, a decrease in volume of 29.4% compared to 1994. However, there was an increase in export volume of shrimp (16.9 %) and tuna/fish (38.1%) which actually had negative results in previous years. Similarly, banana and plantain exports had an increase of 22.2%.

Exports of non-traditional products, although to a lesser extent, showed an increase of 11.6%; specifically exports of mined products such as lead and copper, as well as agricultural products like flowers and other wild grown flora.[20]

Non-traditional exports in 1996 continued to show a similar behavior compared to the previous two periods, an increase of 30.04% over 1995; reaching a new record with a

[20] CENTRAL BANK OF ECUADOR DEPARTMENT OF EDUCATION. 2002 *"Annual Bulletin No. 24"*, pgs. 124-126.

total value of $1.111 billion. These exports also benefited from the depreciation of the real exchange rate in December of that year.[21]

Meanwhile traditional non-oil exports had minimal growth over 1995, reaching only 0.82% in value; such as shrimp, tuna, and coffee. In addition, there was low production of bananas, attributed to the reduction of acres for farming as a result of the phenomenon "El Niño;"[22] other agricultural products were also affected by this phenomenon over the coming years.

In 1997, the recovery of products such as bananas, shrimp, and tuna held largely positive trade balances; however, other traditional products such as cocoa and coffee had a decrease of 19.46% and 23.87%, respectively. There was a significant increase in production and export value of bananas, approximately 37% more than in the previous period, as a result of better conditions in the sector and international demand. Shrimp exports similarly presented an increase of 40.3% in 1997.[23]

With respect to volume during 1997, there was a recovery from what was a decline in the previous period. By the end of the year, Ecuador exported approximately 20,247,773 tons, 4.6% more than what was exported in 1996.

Volumes in oil exports recovered with an increase of 2.3%, just as traditional, non-oil exports increased in volume by 10.4%. Although, cocoa exports showed a loss of 27%, while other items had no major variations.

As for non-traditional products, which had reached a record in its export volume during the previous period, in 1997, there was a decrease in exports by 3.2%. This

[21] CENTRAL BANK OF ECUADOR. 1996 *"Annual Report 1996,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/11/2013 at 12:00 PM.

[22] CENTRAL BANK OF ECUADOR. 1996 *"Competitiveness Studies,"* in: http://www.bce.fin.ec/documentos/PublicacionesNotas/Competitividad/Estudios/ae17.pdf accessed on 09/11/2013 at 4:20 PM.

[23] CENTRAL BANK OF ECUADOR. 1997 *"Annual Report 1997,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/12/2013 at 4:26 PM.

was due to a decrease in the volume of exported products such as fruits and vegetables.[24]

In 1998 all Ecuadorian exports suffered due to that the country faced. After oil, traditional exports were the second to show a negative return over the previous year by falling 15.13%, a total of $388 million, mainly due to the falling price of bananas, which had been the main product of non-oil exports. Shrimp, coffee, and cocoa prices also declined, despite their recovery and good production averages in the previous years, according to the CBE.

Non-traditional exports also suffered a setback as export values were $38.9 million less than in 1997. The Central Bank of Ecuador explained, "commodity sales shrank by 22%, despite its main heading, flowers, remaining buoyant, increasing its value to $31 million;"[25] similarly, industrialized goods grew, primarily: canned fish, canned fruit, juices, chemicals and pharmaceuticals, metal manufactures, leather, rubber, and plastics.

The behavior of the volume of exports is reflected in the value generated by them. As mentioned before, this year, the economic crisis dramatically hit all sectors of the Ecuadorian economy. Despite the decline in export volumes being no more than 5.3%, losses were recorded in both oil and non-oil exports. In the case of traditional exports there was a loss of 13.1%. The items with the highest decrease in export volumes were cocoa and cocoa related products (-67.0%), tuna and fish (-29.7%) and bananas (-12.6%). Because of the importance or economic strenght, that the banana has in the Ecuadorian economy, the loss in export volume directly impacted the poor performance of exports during this period.

Exports of non-traditional products for the second year showed negative results reaching 16.1% compared to the previous year.[26]

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[24] CENTRAL BANK OF ECUADOR DEPARTMENT OF EDUCATION. 2002 *"Annual Bulletin No. 24,"* pgs. 124-126.

[25] CENTRAL BANK OF ECUADOR. 1998 *"Annual Report 1998,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/12/2013 at 5:18 PM.

[26] CENTRAL BANK OF ECUADOR DEPARTMENT OF EDUCATION. 2002 *"Annual Bulletin No. 24,"* pgs. 124-126.

During 1999, exports recovered from the previous year; however, in the case of non-oil exports, these decreased in value by approximately 9.41% with respect to its 1998 value. This behavior is attributed to the decrease in value of traditional exports due to factors such as low prices of these goods in the market and low levels of production achieved as indicated by the Central Bank of Ecuador.

The decline in traditional exports, as indicated by the CBE, was due largely to a decline in the price of bananas and plantains in the international market; in 1999, a decrease was recorded at a value of 10.82%. Similarly, a decline in prices affected other areas such as shrimp (-30.40%), coffee and coffee products (-25.66%), and traditional seafood products (-15.95%). However there was a recovery in sales of cocoa and cocoa products during the same year, registering an increase in value of 125.79%. This was due to higher prices in the international market and the good production levels achieved during the year.[27]

Despite low international prices of bananas, the volume of exports improved this year with an increase of 1.7%, compared to the negative result in the previous year. In addition, the volume of exports of tuna and fish increased by 41.1%; however, the most improved case during this period was cocoa which increased its export volume by 264.7%.

Non-traditional exports showed an increase in value of 4.81% to a total of $1.156 billion. The most frequently exported and highest revenue generating products during the year were industrialized foods (i.e. canned, pulp, juice), flowers, and mining products; the total export volume achieved a 23.1% increase.[28]

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[27] CENTRAL BANK OF ECUADOR. 1999 *"Annual Report 1999,"* in :http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/13/2013 at 11:43 AM.
[28] CENTRAL BANK OF ECUADOR DEPARTMENT OF EDUCATION. 2002 *"Annual Bulletin No. 24,"* pgs. 124-126.

1.1.6. Exportable Supply of Ecuador and its Main Destinations

1.1.7. The Composition of Non-oil Exports 1990-1999

Foreign trade in Ecuador, since the colonial era, has maintained certain characteristics; and it is further strengthened with the birth of the Republic after the separation from the "Grean Colombia." With the advent of the republic, the country gradually took shape as described by economist Alberto Acosta (2001) as, "primarily an accumulation modality of exporting."[29]

In this sense, Ecuador was characterized as an exporter of natural resources and importer of manufactured goods, this situation would continue throughout history with the different "booms" of the Ecuadorian economy.

During the analyzed decade, Ecuador maintained its primary export model; the Central Bank of Ecuador, as mentioned above, divides exports of goods into two groups, the first consisting of the exports of oil and its derivatives. Since the oil boom in the 1970s, this product has come to be one of the most, if not *the* most, important economic income stream for the country. Thanks to this resource, Ecuador has made a lot of money and somehow has promoted infrastructure development as well.[30] But, oil prices, as seen above, is an unknown variable, "subject to random conditions of both the market and global policy, or more disturbing events such as wars or terrorism."[31]

Ecuador is a marginal producer of oil. The marketing of Ecuadorian oil has historically been done mostly through intermediaries, while a small percentage of its marketing is done directly by the state. Another aspect to consider is the price at which Ecuadorian crude is sold. In the first instance, this price is established by *Petroecuador*; in relation to the price of WTI (West Texas Intermediate) crude, which subtracts a corresponding differential quality. Ecuadorian oil is below the WTI

[29] ACOSTA, A. 2006 *"Brief Economic History of Ecuador,"* pg. 37
[30] ACOSTA, A. 2006 *"Brief Economic History of Ecuador,"* pg. 125
[31] GORDILLO, R. 2005 *"The Devil's Gold?,"* pg. 288

benchmark, i.e. its quality is lower and therefore it does not produce the best performance.[32]

The other group that the CBE ranks exports is the group of non-oil exports which has a subdivision classifying bananas, coffee, cocoa, shrimp and seafood-based products, specifically tuna. These are known as traditional export products; while other products that do not fit this category are known as non-traditional exports.

This division, and subdivisions, are the result of historical and economic importance as exportable goods; at certain times in the history of the country some of these were the main national income. Today they still continue to provide significant revenue to Ecuador.

In the 1990s, traditional exports almost always maintained a total export value greater than oil exports, although oil sales generated higher revenue at certain points. Nevertheless, export volumes far exceed traditional volumes achieved by oil, compensating for the difference in value.[33]

The main product of non-oil exports during this decade was the banana, whose price also depends on the demand in the international market. Although it was not considered the main export of the country, it retained considerable importance since it contributed over 32% of the value of non-oil exports in the analyzed period.

Banana exports during this decade were affected not only by the restrictions imposed on them by the European market, as well as the decline in the price of fruit and increased supply by other countries, but also by external climatic factors, limiting production in the country; especially from 1994 – 1996 when Ecuador was hit by the phenomenon "El Niño." Despite these factors, the quality and unique features of Ecuadorian bananas maintain its competitiveness abroad.[34]

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[32] GORDILLO, R. 2005 *"The Devil's Gold*," pg. 288

[33] CENTRAL BANK OF ECUADOR. 2012 "85 years of the Central Bank of Ecuador (Historical Statistics Series)."

[34] CENTRAL BANK OF ECUADOR. 2001 *"An analysis of the competitiveness of Ecuadorian bananas,"*

Although Ecuador has come to be one of the leading exporters of bananas in the world, Asian countries like the Philippines, and Central American countries like Costa Rica and Guatemala, have jeopardized the country's position regarding this product; mainly due to their increased production volumes and other benefits available to them.

Shrimp exports had the second highest volume after bananas, due in large part to the inclusion of this product in new markets, primarily in the United States and the European market. Shrimp production in Ecuador began in the 1970s; and in 1987, Ecuador was the world's largest producer of this product. However, in the 1990s, production, and activities related to the shrimp industry, declined; largely due to climatic factors. Despite this, the Ecuadorian shrimp industry reached new markets and consolidated in others, such as the United States and the European Union.[35]

Concerning other products that make-up traditional exports, their participation was also determined by market factors and production. Although, in some years, there were increases in its total export value, this never became a trend for the entire period, as can be seen in the statistical report prepared by the Central Bank of Ecuador. Again, export volumes of these products were affected by exogenous factors such as climate and negative fluctuations in international prices.

Ecuador has exported tuna since 1952, this activity has steadily increased with the expansion of the industry into large fishing fleets and processing plants; however, this activity has been carried out entirely by the private sector. Due to the lack of the State's participation, many would agree that the fishing and tuna industry in Ecuador has not been developed to its full potential. In the 1990s, Ecuador had the advantage of a superior territorial sea, greater than 12 nautical miles, and climatic factors that favored the proliferation of aquatic species.[36]

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http://www.bce.fin.ec/documentos/PublicacionesNotas/Competitividad/Estudios/ae17.pdf accessed on 09/09/2013 at 1:20 PM.

[35] Ecological Action. 2002 "*Campaign for mangrove swamps*" in http://www.edualter.org/material/sobirania/enlace7.pdf accessed on 05/04/2014 at 10:30 AM

[36] ROJAS, S. FUELTALA, P. 2012 "A *Cluster of Canned Tuna from Ecuador*" pg. 1

Cocoa exports were reduced during this decade despite being a product of great historical importance. Ecuador ceased to be the main producer of cocoa decades ago. In 1915, Ecuador lost this title; and from 1930 to the present, the total production of cocoa in Ecuador decreased by approximately 63% due to pests in the crops. In the 1940s, a state initiative sought to renew the fields and cocoa production in the country but to no avail. Nevertheless, today the country still holds first place in world production of fine aroma cocoa; in the 1990s cocoa exports accounted for only 4% of non-oil exports.[37]

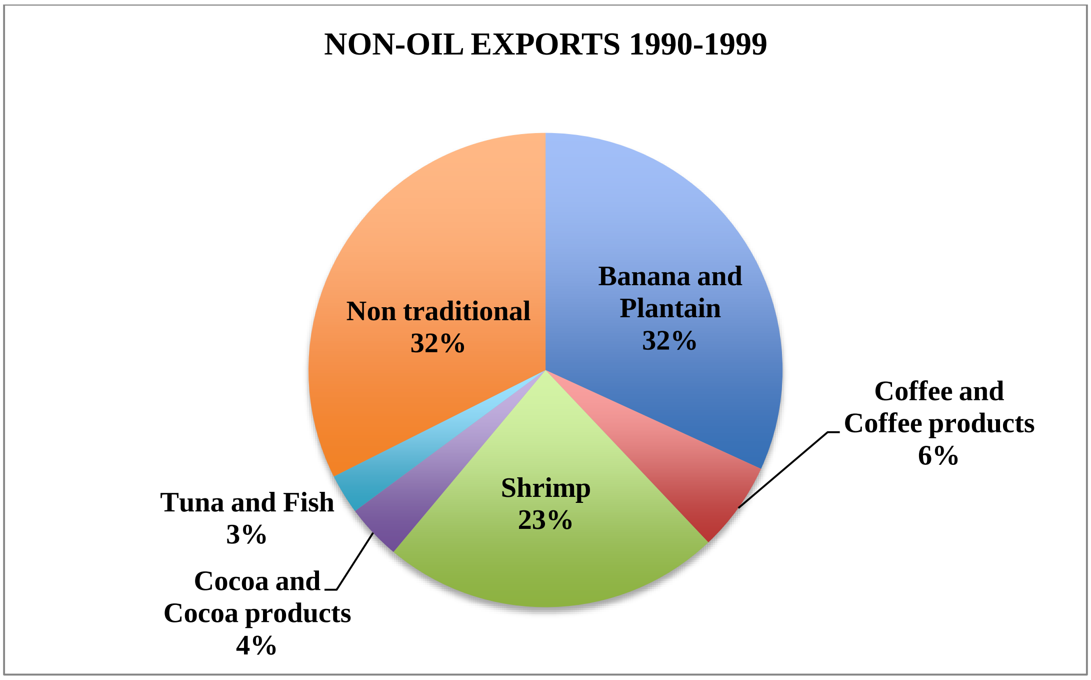
Coffee in Ecuador has been produced since the mid-nineteenth century. In 1935, its exports were on the rise, according to the Ecuadorian Institute for the Promotion of Exports (*Proecuador*). The Ecuadorian territory is an ideal place for the production of this product; it is produced in at least 20 provinces and in two different varieties (*Arabica* and *Robusta*). However, despite the nineties exporting historical volumes of Ecuadorian coffee, the phenomenon of El Niño wiped out many of the plantations, causing quality and volume to significantly reduce. This, combined with a marked decline in international coffee prices, has put the sector in a difficult situation.

Non-traditional products however, in most of the period, showed an upward trend and a more diversified export supply, specifically products such as flowers, canned foods, preserves, fruit pulp, juice, chemicals, mining products, vehicles, metal manufacturing and non-traditional agricultural products. These non-traditional exports accounted for 32% of non-oil exports and 19% of total exports during 1990-1999.

Although there is a greater amount of products that make up the non-traditional classification, they are mostly agricultural products without any added value. Ecuador, in the 1990s, always maintained a negative trade balance of goods due to the amount of capital goods imported or manufactured, widely outnumbering those exported by the country.

[37] REVISTA EL AGRO. 2012 "*The Economics of Cocoa in Ecuador*" in: http://www.revistaelagro.com/2013/03/20/el-cacao-en-la-economia-del-ecuador/ accessed on 06/30/2014

Graph No. 2: Percentage share of products of non-traditional exports 1990-1999



Source: The Central Bank of Ecuador- Statistics
Prepared by: Author

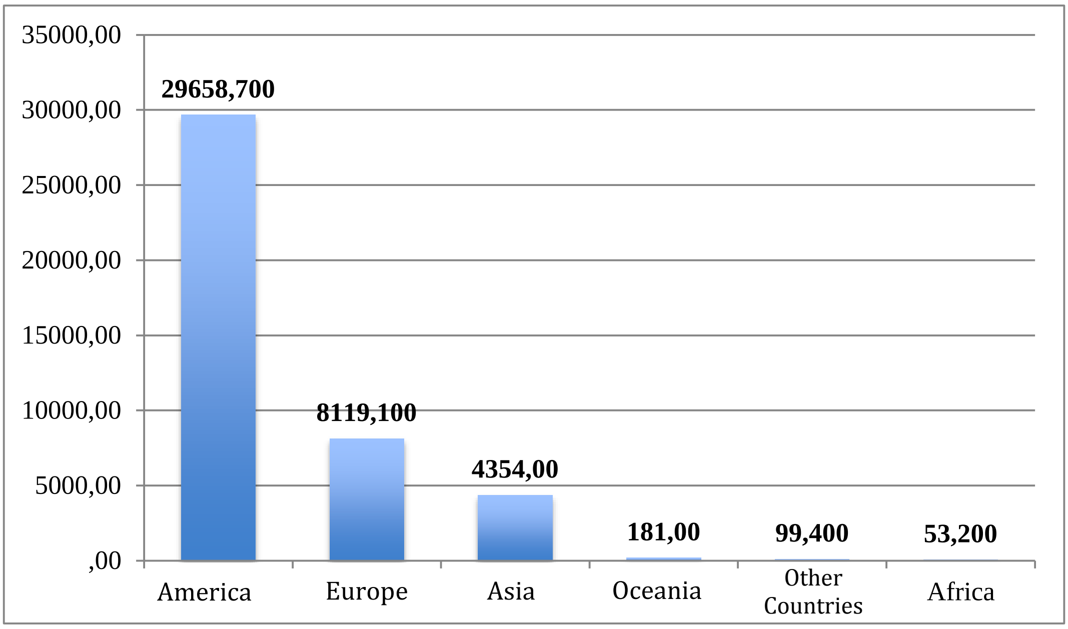
1.1.8. Buyers and business partners of Ecuador 1990-1999

Due to the fact that Ecuador has historically been characterized as a producer of raw materials, the main buyers of its exports have been industrialized countries engaged in transforming these into manufactured products. This trend stems from the colonial period when the Spanish colonies served mainly as suppliers of raw materials to the ancient kingdoms and empires.[38]

Since the nineteenth century, Ecuador has exported the largest quantities of its products to the United States and America in general, followed by Europe, and thirdly Asia according to CBE statistics.

[38] ORDONEZ, D. 2012 "*Ecuador's foreign trade: an analysis of trade in goods since colonial times to the present*," in Observatory of the Latin American Economy, No. 173

Graph No. 3 Ecuador exports by continent period 1990-1999

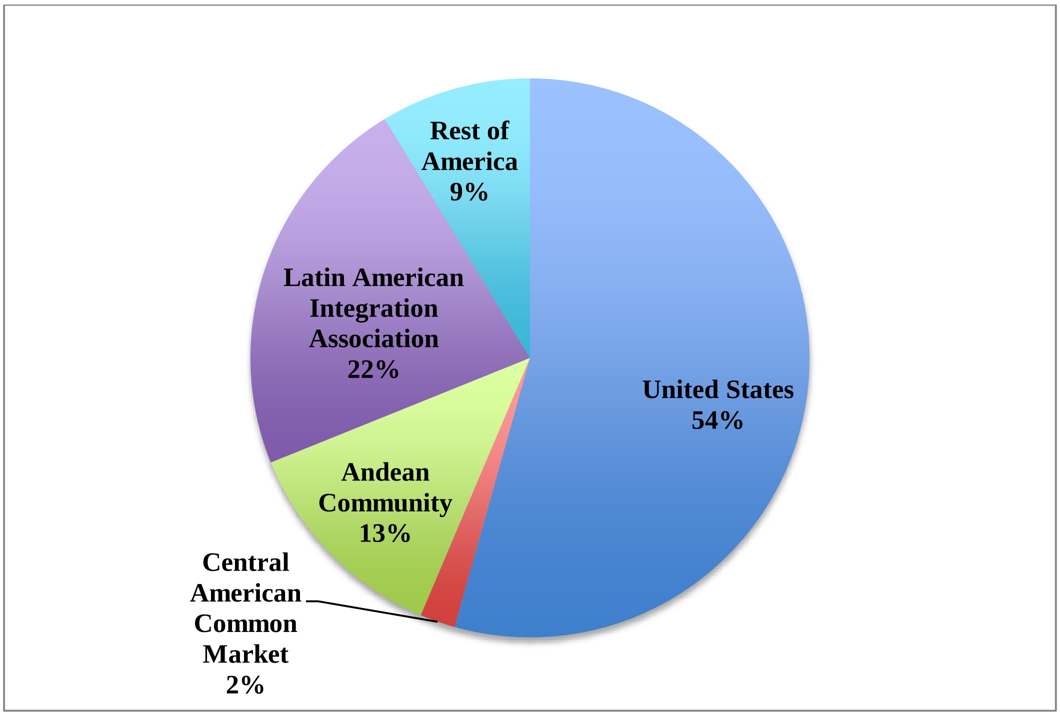


Source: The Central Bank of Ecuador - Statistics
Prepared by: The Central Bank of Ecuador

During the 1990s, 70% of Ecuador's exports went to the Americas, the US receiving 54% of exports; followed by the Latin American Integration Association (22%) composed of Argentina, Brazil, and Chile. Venezuela's amount was not taken into consideration since it is one of the members of the Andean Community, which was ranked as the third highest importer of Ecuadorian exports as a whole, comprising approximately 13% of total exports.[39]

[39] CENTRAL BANK OF ECUADOR. 2012 "*85 years of the Central Bank of Ecuador (Historical Statistics Series)*" Chapter II.

Graph No. 4: Ecuador's exports to the American continent by group of countries 1990-1999



Source: Central Bank of Ecuador - Statistics
Prepared by: Author

It is also important to mention that during this period the country sought to establish better trading conditions; for example, the entry of Ecuador into the World Trade Organization in 1996, and the agreement of the Andean Community of Nations in 1969, whose members were ranked as the third highest in destinations of Ecuadorian exports during this period.[40]

In the 1990s, Ecuador had a positive trade balance with respect to its main trading partner, the United States. In the case of other South American countries, Ecuador recorded positive trade balances with Chile and Peru; but, with Mexico, Venezuela, Colombia, Bolivia, and Argentina the trade balance was negative.

The importance of the commercial relationship between the United States and Ecuador has become more and more important, due to the US being the principal

[40] CENTRAL BANK OF ECUADOR. 1996 *"Annual Report 1996"*, in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 09/02/2013 at 12:30 PM

importer of Ecuadorian oil products. Ecuador has also maintained a positive trade balance with China, especially in the 1990s where there was a period of greater trade openness between the two countries with the creation of the GSP (Generalized System of Preferences). The GSP established exemptions from tariffs on 4,200 products, even farmed, manufactured, and semi-manufactured goods. Ecuador, Bolivia, Colombia, and Peru also formed free trade agreements with Ecuador. In 1991, the Andean Trade Preference Act, or ATPA, included 5,697 products from the four Andean countries. The ATPA agreement was aimed at improving exports from the Andean countries and generating new sources of employment and development.[41]

The European continent, which for this period was the second largest export destination, mainly imported traditional products from Ecuador, i.e. bananas, cocoa, coffee, and tuna, as well as other non-traditional exports like flowers. The Framework Cooperation Agreement of 1993 and the Rome Declaration of 1996 are the foundations of the relations between the European Union and Ecuador. Both agreements sought to develop trade relations, investment, finance, and technology between both parties.[42] Bilateral trade with the countries of the European Union has not reached the same level of openness that Ecuador has with the United States, this is mainly due the nonagreement in matters concerning to agriculture as imports of these products can negatively affect this sector that is excessively protected by the EU.

Within the European Union, Italy was the largest buyer of Ecuadorian products during the period under review. 4% of total exports during this period were shipped to this country, mainly consisting of bananas, canned fish, and coffee.

The third largest destination of Ecuadorian exports was the economic, political, and trade bloc known as the Andean Community (CAN) established in 1969. The CAN agreement sought to facilitate trade between member countries, granting preferential tariffs to products produced therein and traded between one another. The geographic

[41] ECUADORIAN AMERICAN CHAMBER OF COMMERCE. 2009 "*Ecuador-US trade. the benefits of trade with our largest trading partner*" in: http://es.scribd.com/doc/18348478/Relaciones-Comerciales-Ecuador-Estados-Unidos-de-America-ATPDEA accessed on 06/30/2014

[42] Framework Cooperation Agreement between the EC and the Andean Community. 1993, in: http://europa.eu/legislation_summaries/external_relations/relations_with_third_countries/latin_america/r14008_es.htm accessed on 06/30/2014

location of the bloc, and the proximity of Ecuador within it, is a major advantage for trade. However, in the 1990s, Ecuador was at a disadvantage in acquiring products from member countries because of its undervalued currency. Another negative aspect of the bloc was the similarity of the products produced by each nation, which often ended up creating competition.

Within the Andean Community, the largest buyers of Ecuadorian products during this period were the neighboring countries of Colombia and Peru. In the case of Colombia, 5% of total Ecuadorian exports were shipped to this country while Peru imported only 4%. Despite their geographical proximity, and existing trade agreements between Ecuador and these two countries, Ecuadorian exports to the United States are far superior to those sent within the CAN. As mentioned before, this is largely due to the similarity in exported products by these three countries.

Asia stood out as the fourth largest importer of Ecuadorian products. During the analyzed period, South Korea was the second largest importer of Ecuadorian goods in Asia, next to China, representing 6%. The main product exported to South Korea was oil, while the banana was the main non-oil product purchased by North Korea.

1.1.9. Conclusions

Ecuadorian exports, before the dollarization, were governed largely by factors such as production of goods in the country and international demand, since most of the export supply consisted of raw materials. The ability to devalue its currency allowed Ecuador to offer its products at a competitive price in the market, since its exports did not have a higher degree of differentiation from their counterparts in neighboring countries.

In the analyzed decade, the United States played an important role for the Ecuadorian economy because it was the main trading partner of Ecuador, as well as one of the main countries providing cooperation and investments in Ecuador. Meanwhile, the presence in Europe of Ecuadorian products was quite weak, basically only importing agricultural products. In the case of other continents like Asia and Africa, the presence of Ecuadorian exports was almost nonexistent.

During the majority of the 1990s, Ecuador maintained positive trade balances, especially in oil; however, at the end of the period, imports showed a considerable increase. Meanwhile, the non-oil trade balance always showed negative results, which further increased with the rise in imports at the end of the decade.

CHAPTER II

2.1.1. Introduction

In this second chapter, dollarization will be analyzed; its concepts, its origin, and history of the practice in the world and then continue with the analysis of the dollarization of Ecuador. Throughout this chapter, the prospects of Ecuador before the entry into force of the dollar, as well as the analysis of the external sector, focusing on the non-oil trade balance from 2000 to 2012, will be analyzed. Also the composition of the country's export supply and destinations over the years will be reviewed.

Finally, this chapter will explain the changes that occurred in the economic model and development of countries related to foreign trade based on the legal and governmental actions undertaken during the analyzed periods; as well as an analysis of institutions and organizations related to the promotion and strengthening of the Ecuador's exports.

2.1.2. Dollarization

The trend towards the use of a common currency in the world to conduct and facilitate commercial transactions is based on the ever increasing globalization of markets, where economic and political blocs have opted for the use of a common currency, as in the case of the European Union with the Euro. The adoption of a common currency for a given group of States is the result of an extensive process of political and economic integration.

On the other hand there is dollarization, which in short can be described as the process where a local currency is substituted by the US dollar as a unit of account and as a means of payment and exchange.[43]

In the 1980s, Latin America and the Caribbean faced a large economic crisis due to extremely high debt; the most outstanding cases were those of Mexico, Bolivia and Ecuador. During the 1970s, governments of these countries, influenced by

[43] CALVO, G. 1994 *"Monetary and Exchange Rate Policy in Transition Economies: Dollarization, Imperfect Credibility and Incomplete Markets,"* pg. 5

international financial organizations and the possibility of generating large revenues as a result of the exploitation of recently discovered natural resources, began to increase their debt, to the point that for the next decade these governments sought out more loans to cover payments of their already existing liabilities.[44]

During the 1990s, dollarization was an issue that was relevant to Latin America. Countries like Argentina and Bolivia argued in favor of dollarization as a way to solve problems of foreign debt, hyperinflation, and the constant devaluation of their currencies.[45]

Those who argued in favor of dollarization saw it as a solution to all previous failures caused by the mishandling of macroeconomics and fiscal policy in the region. Colombian economist Carlos Esteban Posada (2001) notes that, the adoption of dollarization is justified in stimulating investment and thus long-term growth; reducing currencies in foreign trade increases microeconomic efficiency, and there are several countries that currently have a common currency.

Economist Guillermo Calvo (1999) was one of the main proponents of dollarization. His argument was that financial and capital markets were efficient, but that because of instability, the state would have to be more involved in the management of the economy, thus generating distrust by investors and restricting credit to the private sector. The best solution to this problem, as Calvo stated, was the adoption of the dollar in Latin America.

With dollarization, investors no longer need information for decision-making or extensive macro econometric analysis to project the domestic exchange rate against the dollar and other major currencies. In addition, currency risk disappears entirely; economic policy is also strengthened as the government has to take greater control of fiscal policy and improve debt management. In the end, dollarization advocates

[44] TOUSSAIN, E. *2003 "The debt crisis in Latin America in the nineteenth and twentieth centuries,"* pgs. 4-5
[45] GARCIA, M. 2002 *"Is dollarization the medication we need,"* pgs.171-172

assured a reduction of sovereign risk,[46] as well as the cost of credit, and a higher percentage of investment and growth.[47]

Many of these arguments stemmed from what was considered a success by Argentina with the Convertibility Law adopted in 1991, which sought to curb high inflation that this country had been accumulating for nearly fifty years.

With this law, the Argentinian government adopted a fixed exchange rate between the *peso* and the US dollar, however, the responsible body for this, known as the *Caja de Conversión* (Currency Board), did not sacrifice the local currency, i.e. it was not replaced in its entirety as discussed in dollarization.[48]

The Convertibility Law in Argentina was intended to stabilize and structurally transform the economy to ensure sustained growth without inflation. "The law aimed to persuade agents to hold *pesos* equivalent to dollars, avoiding the dollarization of the economy, and the government reserving some for *seigniorage*."[49]

However, convertibility in Argentina failed to resolve the crisis since the same conversion resulted in an increase in imports, devastating the domestic productive sector which led to the loss of hundreds of jobs and a labor crisis.

The convertibility regime that was in force for 11 years finally collapsed in December and January 2002, leaving Argentina in the worst economic crisis in its history.

The failure of convertibility in Argentina was attributed in part to the inefficiency of the government to control the rising deficit, further heightened during the administration of Dr. Carlos Menem. According to the international consulting firm,

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[46] **Sovereign Risk:** is the risk that creditors adopt for States or entities guaranteed by States, their calculation is based on payment history, political stability, economic conditions, willingness to refinance or pay off debts, etc.
[47] MORENO, A. 2002 *"Dollarization in Latin America: An Unconventional Look,"* pg. 155
[48] CANAVESE, A. 2001 *"Convertibility in Argentina: Operation of a Currency Board Anchored to the Dollar,"* pgs. 6-7
[49] CANAVESE, A. 2001 *"Convertibility in Argentina: Operation of a Currency Board Anchored to the Dollar,"* pg. 7

Deloitte Argentina (2005), the International Monetary Fund (IMF) made three errors that contributed to the failure of convertibility; the report highlights the following:[50]

"…the Fund should be criticized for backing weak political policies for so long, even in the absence of control over public spending and inefficiency in the need for profound structural changes."

The firms stated that the biggest mistakes of the Fund were:

- ". . . not having driven greater fiscal discipline, considering that the public deficit goals were never implemented from 1994 onwards . . .;
- . . . giving the government of De la Rua the benefit of the doubt at the time the sustainability model of convertibility was concerned . . .;
- . . . the lack of alternative plans while the situation worsened."

The lack of coordination between the policies proposed by the IMF and the Argentinian government caused the collapse of the Convertibility Law; actions taken by the IMF remains today a topic of discussion since their policies are questioned as a means of resolving the crisis rather than a way of ensuring loans to millionaires.

It is true that the case in Argentina was not an example of complete dollarization; as such, the failure of convertibility does not demonstrate or test the effectiveness thereof.

A better example of dollarization is the case of Panama. This country was always familiar with the US dollar from its historical condition of being the passage of merchants coming from both coasts of the United States. Because of the canal services received in Panama by US merchants, the government was most often paid in US dollars.[51]

[50] Deloitte & Co. S.R.L 2005 *"The Crisis of Convertibility,"* pg. 3
[51] FERNÁNDEZ, M. 2008 *"How does dollarization work in Panama?"* pgs. 1-2

With the independence of Panama in 1904, the country created a Currency Convertibility Board in which it was stated that the new currency should be backed by US dollars. In Panama, the *balboa* is issued as a fractional currency. Likewise, checks and payments are issued in the currency, provided that the equivalence between the dollar and the Balboa remains; however, foreign transactions are conducted only in dollars.[52]

The Panamanian experience of 109 years of dollarization has shown that, despite minor crises which the country has been through, this is still a very solid and stable standard. In the case of Panama, the dollarization of the economy has never really been an issue since the dollar was adopted as an official currency since its independence; this is one of the possible reasons why the system has remained without mishap. It should also be noted that Panama's economy is based on services, and to some experts this would not have been possible without dollarization.[53]

2.1.3. Dollarization in Ecuador

Drawing from the above discussed experiences, we can make some early conclusions about what effect dollarization could have on Ecuador; however, it is important to analyze context and how the process was implemented, i.e. the history, causes, and situations that led to its adoption; it is also necessary to know the opinions of those who argued for and against using the dollar as an official currency.

Dollarization, according to the Central Bank of Ecuador (BCE), refers to the process in which foreign money or money replaces the domestic currency in any of its three functions. Particularly, dollarization refers to the substitution of the local currency with the US dollar as a store of value, unit of account, and as a means of payment and exchange.

A dollarization process has several stages, since it often begins informally, i.e. the government or authorities do not express any official policy for the implementation of a foreign currency as legal tender.

[52] Id. pgs. 1-2
[53] Id. pg. 11

In Ecuador, during the 1990s, as in many countries of the region, many sectors of the population began to use dollars as a way to safeguard their income or savings against rising inflation, currency devaluation, macroeconomic instability, and the unreliability of fiscal and monetary measures implemented at the time.[54]

This "flight to safety" by companies and individuals led to three stages of informal dollarization:

1. Replacement of assets: individuals and companies acquire foreign bonds or deposit a certain amount of their savings in foreign currency;
2. Currency substitution: agents acquire means of payment in foreign currency and open bank accounts in dollars;
3. Some goods and services are quoted and paid in US dollars.[55]

Since 1995, the foreign currency credit granted by private banks grew considerably; however, debtors could not prevent significant changes related to the devaluation of the *Sucre*. Thus, many people were unable to meet their obligations, causing the banks to have a higher percentage of nonperforming loans which soon triggered the crisis in the financial sector.[56]

Throughout the 1990s, Ecuador struggled to counter inflation; furthermore, situations like the war with Peru, public and private debt, and political instability made all economic and monetary policy result in failure. By the year 1999, in Ecuador, the dollar, or exchange rate, had risen about 300% in less than six months; macroeconomic instability and other aforementioned factors caused the Central Bank of Ecuador to take drastic fiscal measures.

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[54] CENTRAL BANK OF ECUADOR. 2000. "*Notes on Dollarization*" http://www.bce.fin.ec/documentos/PublicacionesNotas/Notas/Dolarizacion/dolarizar.html accessed on 08/09/2013 at 11:15 AM

[55] CENTRAL BANK OF ECUADOR. 2000. "*Notes on Dollarization*" http://www.bce.fin.ec/documentos/PublicacionesNotas/Notas/Dolarizacion/dolarizar.html accessed on 08/09/2013 at 11:30 AM

[56] CENTRAL BANK OF ECUADOR. 2000. "*Notes on Dollarization*" http://www.bce.fin.ec/documentos/PublicacionesNotas/Notas/Dolarizacion/dolarizar.html accessed on 08/09/2013 at 12:20 PM

Among the measures the Government conducted, the issue of currency in an uncontrolled manner, "causing uncontrollable pressures on the exchange rate and weakening interest rates to counter the growing currency depreciation," was highlighted. "The annual change in the exchange rate reached 195% over 1999, and even further during the first days of January 2000; continuing an upward climb to such an extent that, after January, depreciation was 25% compared to December of 1999."[57]

The idea of adopting dollarization was promoted initially by Joyce Higgins de Ginatta, who at the time was serving as president of the Chamber of Industries of Guayaquil, Ginatta, a well known and respected entrepreneur in the country, in 1998, developed an economic plan based on dollarization, so that during that year, and a part of the next, Ginatta held a series of forums called "Rescue of the Ecuadorian economy: Full Dollarization of the Currency or What?" This was followed by two other forums with the participation of renowned professors and national and international economic analysts.[58] Under the influence and leadership of Ginatta, a group was formed largely by national and international economists like Martin Krause, Juan Carlos Leal, Alejandro Sucre, and others linked to national politics; this group known as the *Foro Económico* (Economic Forum).

This group spread the idea of dollarization through a media strategy consisting of forums, conferences, and interviews in which they tried to show the benefits that this would bring to the country. There was also much work done by the Ecuadorian Institute of Political Economy which published several papers supporting dollarization.[59]

Kurt Schuler (2002), who performed various jobs and visited the country in order to promote and defend dollarization, revealed what many others also felt; freedom and independence was granted to the Central Bank of Ecuador and a small degree of

[57] CENTRAL BANK OF ECUADOR. 2000 "*Notes on Dollarization*" in: http://www.bce.fin.ec/documentos/PublicacionesNotas/Notas/Dolarizacion/dolarizar.html accessed on 08/09/2013 at 12:45 PM

[58] GINATTA, J. 2008. "*16 Years of Struggle*" pgs. 9-10

[59] GINATTA, J. *"Dollarization in Ecuador"* in: http://www.dolarizacionecuador.com/espanol/analisis-y-comentarios/pagina-46 accessed on 08/09/2013 at 6:15 PM

control was given to the ruling political class during the years prior to dollarization, this led the CBE to print *Sucres* to meet the needs of the country, consequently resulting in increased hyperinflation and currency devaluation.

Thanks to dollarization, the economic crisis in Ecuador would be curbed and therefore inflation would be reduced. In his book, "The Future of Dollarization in Ecuador," Schuler notes, "dollarization has also reduced the ability of government authorities to grant special favors or impose punishments through the manipulation of exchange rates, managing change control, or setting interest rates."[60]

Schuler also touches on the deficit in the trade balance and the loss of competitiveness that dollarization can bring; although, the arguments he used to defend dollarization against these impending problems, caused by the loss of money, are not strong enough; and are based mainly on countries that over time have maintained a constant devaluation to sell cheaper products on the market.

In this context, and with an impending crisis of social character caused by the financial crisis, the closure of banks, freezing of funds, and an overall atmosphere of latent uncertainty in the country, on January 9, 2000, the Government of Ecuador announced its decision to adopt the US dollar as its official currency; in order to "break definitively the exchange market instability, reduce inflationary and monetary exchange pressures, and favorably modulate the expectations of the economy to boost productive activity, stimulate investment, and foster increased capital inflows from foreign agents."[61]

In the opinion of economist Alberto Acosta (2006) concerning dollarization, the government's decision, "was more the result of political decisions and anguish before the result of technical considerations." A similar thought is considered by many political groups, including economist Rafael Correa Delgado, the current president of Ecuador. In his book, "Ecuador: from Banana Republic to the Non-Republic" published in 2009, he points out that in order to resolve the crisis existing at that time there were more policy options or instruments that would not have led to the loss of

[60] SCHULER, K. 2002 *"The Future of Dollarization in Ecuador,"* pg. 9
[61] ACOSTA, A. 2006 *"Brief Economic History of Ecuador,"* pg. 243

the country's ability to handle its own monetary policy; but, due to biased trends of the time, or as described by the author in his own words "fanaticism and dogmatism," these options were forgotten."[62]

For the past fifteen years, Ecuador has used the dollar as its official currency. Although opinions for and against dollarization have good fundamentals, and in some cases have been successful, both parties agree today on the fact that the use of the dollar in the country has brought at least some stability and economic growth.

2.1.4. Ecuador vs Dollarization

After the 1990s, the economic situation in Ecuador could not have been more uncertain. The government decision on the adoption of the dollar in January of 2000 caused great concern in the productive sector of the country; this change resulted in an obvious loss of external competitiveness of Ecuadorian products against those similarly produced in neighboring countries. Countries like Colombia could still make use of devaluation to reduce their prices; as a result, products that are produced and consumed within Ecuador are also affected as consumers may find it cheaper to buy imported products.

Ecuador, in 2000, did not have good productivity. Mauricio Davalos Guevara, in his book "Dollarization in Ecuador: Trial and Crisis," published in 2004, stated that this phenomenon was mainly due to the critical factors of competitiveness. Ecuador in 2002 was ranked 72nd out of 80 countries in the competitiveness index of the World Economic Forum.

Additionaly, there is the degree of competitiveness of human capital according to the World Economic Forum, which is ranked by the level of education, health, and their integration into a supportive working environment. Education in Ecuador in the late 1990s was still among the lowest levels in comparison to the rest of the region; moreover, basic areas such as public health and sanitation in the country had been

[62] CORREA, R. 2009 *"Ecuador: Banana Republic to Non-Republic,"* pgs. 92-93

prey to political movements, which caused the management and progress of these areas to be almost completely inefficient.[63]

Training at various levels, be they labor, technical, or management, is the best way to improve employment in the country; but, by 2000 the only institution that advocated this was the National Training Council which had very limited scope and had little regard to the future of the program.[64]

The financial and productive system is also a critical factor because the relationship banking has with the productive sector is the main link between savings and investment, as well as financing activities such as consumption and trade.[65] In Ecuador, the banking crisis led to the collapse of almost half of these institutions in the country seriously affecting the financial system.

The private financial sector in Ecuador by 2002, according to the Superintendence of Banks, was concentrated in 6 institutions which represented more than 70% of the banking sector in the country. This oligopoly, as described by the author Mauricio Dávalos, caused the granted loans by banks to accelerate by 18% annually; also, net interest income or interest charged by these banks increased by 72.14%. Basically, banks gave out fewer loans with higher interest rates.

Although dollarization was able to maintain more stable interest rates in the country, these provisions, and the handling of the loans granted by banks, made credit scarce; thus, most of the loans were granted by private institutions in the country intended for consumption and services.[66]

Multiple legal and institutional changes taking place in the country, as well as laws and institutional framework to ensure the development of competitiveness in the country, have produced improvements in the management of the economy. All these qualities are another critical factor in competitiveness as stated by Dávalos (2004).

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[63] DÁVALOS, M. 2004 *"Dollarization in Ecuador: Trial and Crisis"* pg. 22
[64] *Id.*
[65] *Id.* pg. 23
[66] DÁVALOS, M. 2004 *"Dollarization in Ecuador: Trial and Crisis"* pg. 23

However, at the time that dollarization went into effect the country made changes necessary to adopt this new model, thus leaving many obsolete and even contradictory laws, affecting the competitiveness of the productive sectors.

Legal and political securities are critical factors for competitiveness. Ecuador has been characterized as possessing no legal guarantee, and much less political stability; the cost of this has been that in the country there are no assurances for investment. Dávalos points out the importance of continuing legal and political initiatives that bring benefits to Ecuador. He also notes that past non-continuity was cut short by the arrival of a new political movement which tries to implement their own ideas and delete the old ones.

Finally, Dávalos highlights the problem that, by 2004, the country faced a lack of infrastructure that hindered positive levels of competitiveness, specifically ports, roads, and airports; as well as the low quality of services that were offered at the time.

Acosta (2006) explains that the asymmetrical international relations, specifically the economic conditions, competitiveness, and development, are different between the countries with which Ecuador has commercial relations; the dollarization of Ecuador’s economy further limits their ability to negotiate internationally. Greater structural heterogeneity is described as the possibility of domestic producers having better economic conditions from the importation of machinery at lower prices to improve their competitiveness and reduce their need for human capital, closing the gap between small companies that cannot make such implementations and larger industries which can.

All these factors heightened the risk of the dollarization of the country; although, dollarization mainly meant the loss of the ability of the country to devalue its currency and to set its own monetary policy in order to better compete in the market. Foreign trade and competitiveness not only depended on this ability but all the critical factors that have been mentioned.

It is important to analyze these arguments in addition to the behavior of foreign trade during the preceding years of dollarization in Ecuador, in order to determine which factors and situations remained present; as well as to see what aspects caused changes and improvements in those factors.

2.1.5. Analysis of the foreign sector, the non-oil trade balance, and its behavior from 2000 to 2012

Table No. 4 Trade Balance of Ecuador 2000-2012

THOUSANDS OF US DOLLARS			
YEAR	**EXPORTS**	**IMPORTS**	**BALANCE**
2000	4,907,005.00	3,400,952.50	1,506,053.00
2001	5,479,341.00	4,936.033.60	543,307.00
2002	5.036,121.00	5,953,426.30	-917,305.00
2003	6,222,693.00	6,102,043.10	120,650.00
2004	7,752,891.00	7,282,424.70	470,467.00
2005	10,100,031.00	9,549,361.60	550,669.00
2006	12,728,148.00	11,266,018.50	1,462,129.00
2007	14,321,315.00	12,895,240.70	1,426,075.00
2008	18,818,327.00	17,551,929.80	1,266,397.00
2009	13,863,058.00	14,071,455.10	-208,397.00
2010	17,489,927.00	19,278,713.70	-1,788,786.00
2011	22,345,210.00	22,945,806.60	-600,597.00
2012	23,898,734.00	24,041,538.00	-142,804.00

Source: Central Bank of Ecuador
Prepared by: Author

With the advent of dollarization the importance of the foreign sector in the Ecuadorian economy became more critical; this sector generated a greater amount of circulation through the export of goods. In addition, production and consumption was boosted within the country.

2000

In 2000, Ecuador had a surplus in its trade balance, although it was $193 million less than it was in 1999. The surplus in 2000 was a consequence of the increase in value of oil exports and decrease in imports of consumer products, responding to the drop in demand for them as a result of the economic crisis in the country in late 1999 and early 2000.[67]

Imports also increased in the second quarter of 2000 as a result of the recovery of the productive sector in the country. The recovery was across the board however most

[67] CENTRAL BANK OF ECUADOR. 2000 *"Annual Report 2000,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/10/2013 at 9:40 AM

imports were consumer durables and transport equipment. The import of raw materials and agricultural production materials also had an increase compared to 1999.

Oil exports recorded an increase in value of 38.81% over the previous period, according to data from the Central Bank of Ecuador. In 2000, the price of a barrel of Ecuadorian oil averaged $ 24.90, higher than the average price in 1999 of $ 15.50 per barrel. In 2000, total oil exports reached a value of approximately $2.1 billion.

During 2000 there were also a number of tax adjustments that led to higher revenue to the Non-Financial Public Sector (NFPS), among these the increase in the collection of Value Added Tax (VAT) and income taxes. In regard to tariff tax collections, following the removal of safeguards, there was a decline of about 30% over 1999.

The main reduction of fees, in accordance with CBE figures, was 50% for the importation of used vehicles, taxis, and buses; 50% for imports of agricultural machinery, in order to revive these activities in the country; and a reduction of 50% for imports of household electronics.

A very important event during this period was the highest increase in migration in the history of the country following the crisis triggered in the late 1990s. This phenomenon was evident especially in the southern parts of Ecuador. Large groups of people migrated to other countries in order to find better opportunities and higher incomes. Due to this phenomenon, the migrants sent money to their families that remained in Ecuador; this “sending of money” is known as *remittances from migrants* by the CBE.

Remittances from migrants have become an important flow of money in the balance of payments; the final destination of this money went to housing constructions and the acquisition of consumer goods such as vehicles and appliances, as indicated by the Chamber of Commerce of Cuenca and the Municipality of Azogues.

Also, due to the large influx of American dollars, the dollarization model adopted in the country was strengthened as well.

2001

The year 2001 was strongly marked by the slowdown and poor growth of the economy in the United States, the main trading partner of Ecuador. Exports to this country had decreased by 5%, mainly attributed to the decline in oil prices and problems affecting the United States during the year including rising unemployment, recession in manufacturing, low share prices in the stock market, and finally the terrorist attacks of September 11th.[68]

The trade balance during this period went down; although the balance did not turn out negative, resting at $543 million, the balance recorded a loss of about $962 million (63.93%) compared to 2000. This loss is attributed to the decrease in the price of oil mentioned above and a recovery in imports, as recorded by the CBE.

With regard to oil exports, these experienced a decrease in value of about 21.43% less than the value recorded in 2000; the average price of a barrel of oil in 2001 was $19.20, compared to the average cost of $ 24.90 per barrel in 2000. This caused the decline in the value of exports according to the statistical data of the Central Bank of Ecuador.

The highlight of this period was the 45.14% increase in imports; this increase was mainly due to an increase in the import of capital goods, especially transportation and other goods used in the construction of the Heavy Crude Pipeline initiated this year.

Similarly, there was a significant increase in consumer durables and non-durables, as well as the import of raw materials for production and construction materials, according to the previous Ecuadorian Customs Corporation (CAE), currently known as the National Customs Service of Ecuador (SENAE). This corresponds to the appreciation of the real exchange rate, reported as being at 27.9% by the CBE.

[68] CENTRAL BANK OF ECUADOR. 2001 *"Annual Report 2001,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/11/2013 at 9:00 AM

2002

2002 began with an increase in imports due to the dollar having more purchasing power in the international market. On the other hand, the appreciation of the currency affected the competitiveness of the export supply; imports led to the output of foreign exchange liquidity and prevented sustainability of the new dollar system. During this year the CBE notes that the trade balance had a broad deficit, attributed mainly to higher imports of consumer durables and non-durables. Although during the year oil prices rose, rate growth in export volumes was not increased.

As it can be seen, exports in 2002 suffered a fall; registering a negative value of 8.09% compared to 2001. This fall is linked to low growth in oil exports (8.16%), especially the sharp fall of non-oil exports of traditional products (-31.75%), both compared to 2001.[69]

Meanwhile, there was a growth in imports of approximately 20.61%, attributed largely to the construction of the Heavy Crude Pipeline and the recovery of domestic consumption. Most imports during this period correspond to industry (31.3%) and transport equipment (13.2%), mainly for the construction of the Heavy Crude Pipeline. Imports of raw materials were also mainly for construction purposes.[70]

2003

In 2003 there were a series of restructurings of laws in the productive sector; there were also changes in Customs Law in Ecuador. These reforms are somewhat common to the arrival of a new government, as was the case in January of 2003.[71]

The foreign sector of the country at the end of the year showed an improvement because there was no deficit in the trade balance, unlike 2002. This was due in large

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[69] CENTRAL BANK OF ECUADOR. 2012 "85 years of the Central Bank of Ecuador (Historical Statistics Series)" chapter II.

[70] CENTRAL BANK OF ECUADOR. 2002 *"Annual Report 2002,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/14/2013 at 9:45 AM

[71] CENTRAL BANK OF ECUADOR. 2003 *"Annual Report 2003,"* pg. 43. in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/14/2013 at 12:45 PM

part to the rise in oil prices and declining imports. The decrease in imports was mainly caused for the lower consumption of certain goods such as building materials, transport equipment, and consumer durables; this decrease was a direct result of the completion of the construction of the Heavy Crude Pipeline.

Imports of fuels and their derivatives, as well non-durable consumer goods, showed an increase during this period over previous years; this is also a consequence of the increase in fuel prices.[72]

There was a growth of 23.56% over the previous year in exports, largely due to the good performance of the oil sector (26.85%) and the recovery and growth of traditional (17.33%) and nontraditional (25.20%) exports.[73] Total exports of crude oil had a total value of $2.6 billion, generating about $551 million more than in 2002. This performance is due to the volume of production and exports that increased by nearly 29% over the previous period. Moreover, exogenous factors influenced the rise in international oil prices; among these factors: the start of the war between the US and Iraq, the declining share of oil Venezuela sells to this country, and finally low oil production worldwide coupled with the high demand for oil as a result of low temperatures during this year.[74]

During 2003, state revenue in terms of tariffs were reduced by 0.2%, the reasons for this are mainly due to tariff reduction and changes in rates applying to certain products. Referring to the tariff issue, the CBE stated the following:[75]

“In this sense, tariff policy implemented by COMEXI Resolutions should balance, on the one hand, the need for precautionary income tax revenue, and secondly, to analyze the effective level of protection and the level of productivity and competitiveness of companies. This is essential to avoid privileges that benefit groups and / or economic

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72 CENTRAL BANK OF ECUADOR. 2003 *“Annual Report 2003,”* pg. 79. in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/20/2013 at 11:45 AM
73 CENTRAL BANK OF ECUADOR. 2012 “85 years of the Central Bank of Ecuador (Historical Statistics Series)” chapter II.
74 CENTRAL BANK OF ECUADOR. 2003 *“Annual Report 2003”,* pg. 76. in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/20/2013 at 12:15 PM
75 CENTRAL BANK OF ECUADOR. 2003 *“Annual Report 2003”,* pg. 60. en: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/21/2013 at 10:35 PM

sectors, by increasing the effective protection to groups of goods and services at the expense of others, including end consumers."

2004

In 2004, the Ecuadorian economy had its greatest growth in regard to the last 16 years, reaching a growth rate of 6.9%; this growth was due to increased oil production in the country as a result of the full operation of the Heavy Crude Pipeline.[76] In this year the trade balance showed a surplus of $470 million, an increase of approximately 289.94% over the previous period. Exports of oil had a total value of approximately $4.2 billion, resulting in a growth of 62.42% compared to 2003.

Imports also showed an increase of 19.34% over 2004 due to an increase in prices, especially in oil derivatives. As for the import of goods, there was an increase in imports of goods and raw materials for agriculture and consumer non-durables. Moreover, imports of construction materials were the most affected by rising prices, as well as pharmaceuticals.[77]

2005

In 2005 the trade balance in Ecuador had a positive balance at the end of the year; the surplus was about $80 million more in comparision to the previous year. This positive result is attributed largely to the oil boom that the country had experienced over the past years in contrast to the poor performance of the non-oil trade balance.[78]

Oil exports registered an increase of 38.64% in value compared to that recorded in 2003, this result was mainly due to the upward trend of oil prices in the international market driven by strong energy demand in the United States and its trading problems with oil exporters in the Middle East; insomuch that the average price of a barrel of oil in Ecuador was $41 per barrel. It should be noted that the shutdown of oil

[76] CENTRAL BANK OF ECUADOR. 2004 *"Annual Report 2004,"* pg. 43. in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/21/2013 at 11:16 PM
[77] BANCO CENTRAL DEL ECUADOR. 2004 *"Annual Report 2004,"* pg. 58. in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/21/2013 at 11:46 PM
[78] BANCO CENTRAL DEL ECUADOR. 2005 *"Annual Report 2005,"* pg. 75

production in the country during the month of August of this same year prevented oil prices from reaching its maximum potential.[79]

In 2005, the WTO conducted a review of the trade policies of Ecuador. It pointed out that there were still many obstacles such as non-tariff restrictions and licensing of non-automatic imports; the WTO also noted the lengthy customs procedures that exist in the country. But above all these things the report noted that Ecuador, unable to set its own monetary policy, should take targeted actions in the field of trade and investment which would allow economic growth and sustainability of the Ecuadorian economy against external forces.[80]

2006

2006 had very good results in the trade balance as this had an estimated surplus of $1.4 billion dollars, exceeding the balance in 2005 by $912 million dollars; this result is attributed to unexpected growth of exports that far outweighed growth of imports. In 2006, oil hit a record price of $ 61.30 per barrel; the average price during the year of a barrel of Ecuadorian crude was $ 50.80, 23.7% more compared to the average in 2005. Both private and public production in the country recorded an increase in volume; the total value of oil exports in 2006 reflected an increase of 28.53% over the previous period.[81]

2007

In 2007, a positive trade balance, due in large part to oil trade, recorded another surplus. This year, the average price per barrel stood at $60.20, 18.6% more than the average recorded for 2006. The increase in the price of a barrel of oil managed to offset the loss of volume exported as a result of the decline in domestic production that occurred during this same year.[82]

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[79] CENTRAL BANK OF ECUADOR. 2005 *"Annual Report 2005,"* pg. 77
[80] WORLD TRADE ORGANIZATION. 2005 "Reviews of Trade Policy: Ecuador" in: http://www.wto.org/spanish/tratop_s/tpr_s/tp248_s.htm accessed on 10/24/2014 at 9:00 AM
[81] CENTRAL BANK OF ECUADOR. 2006 *"Annual Report 2006,"* pg. 84
[82] BANCO CENTRAL DEL ECUADOR. 2007 *"Memoria Anual 2007",* pág. 91

The third summit of OPEC was held this year; during this summit Ecuador reentered the organization. The main points of the summit referred to the increase in the price of a barrel of oil. While some leaders agreed that the price should be around $100 per country, other countries advocated for a stop to rising prices. Nevertheless, at the end of the summit, any restrictions or controls on oil production were not established to prevent a rise in the price of oil.[83]

Imports of consumer goods had an increase in value of 12.7%, featuring top imports of non-durable consumer goods, mainly pharmaceuticals and foodstuffs. Meanwhile, imports of raw materials showed a greater increase in value by 18%. The behavior of imports during this period was affected by the replacement and elimination of certain tariff barriers, especially for capital goods and raw materials, in accordance with the CBE.

2008

In 2008 there was a major economic recession in the United States, and as a result of increasingly globalized world economic interdependence this recession ended up affecting the rest of the world. While there were certain manifestations prior to 2008, due mainly to economic deregulation, it was in 2008 that the worst financial crisis in history officially took place. As a result of the global financial crisis, global trade decelerated, as evidenced by the lower volume of trade negotiations that occurred in the world during 2007 and 2008; especially in the fall in prices of raw materials or commodities, which are the main exports of Ecuador.

With the arrival of the international crisis international trade slowed. As a means to offset mentioned crisis, that countries resorted to the devaluation their own currencies to stay competitive in the market; hence, Ecuadorian exports lost much ground to their counterparts in Peru and Colombia, while imports from these countries increased as a result of the appreciation of the dollar against these currencies, deepening the deficit of the non-oil trade balance.[84]

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[83] CENTRAL BANK OF ECUADOR, *"Analysis of the Oil Industry No.6, IV quarter of 2007"*

[84] BANCO CENTRAL DEL ECUADOR. 2008 *"Memoria Anual 2008",* pág. 93

The year 2008 also brought a change for Ecuador. President Rafael Correa Delgado called for a Constituent Assembly in 2007 with the aim of reforming the constitution in vality since 1998. Thus, in 2008 a new constitution was ratified which brought about many changes in foreign investment, exploitation of natural resources, the productive matrix, and commerce in the country.[85]

Another important milestone related to changes that occurred in the country during this period, related to oil exploitation, was the Yasuní ITT initiative; beginning in 2007, through the initiative of the then Minister of Energy and mines of Ecuador, Alberto Acosta. The initiative sought to keep the oil in the area known as Yasuní National Park, specifically in reference to the runner Isphpingo-Tambococha-Tiputini area of great interest due to the existing natural biodiversity. The non-exploitation of oil would protect a natural biosphere, avoiding deforestation and the emission of CO_2 into the atmosphere.[86]

Also in 2008, the trade balance maintained a surplus as a result of high oil prices; by the end of the year, the price per barrel reached a record of $147 per barrel.[87]

Non-oil imports continued to increase, resulting in a deficit in the non-oil trade balance. In December of 2008, these imports amounted to $14.2 billion dollars, a 38% increase compared to 2007. This was due both to an increase in the quantity imported and also the higher unit prices of goods; moreover, tariff differentiation of certain items as capital goods and raw materials lead to growth according to the CBE.

2009

In 2009, the external sector of the country suffered more directly the impact of the international crisis that broke in late 2008; for the first time since 2002 the trade balance had a deficit of $208 million. In relation to previous years, the surplus in the oil trade balance had a decrease of 45.23%, while the deficit in the non-oil trade

[85] ACOSTA, A. "Brief Economic History of Ecuador". pg 374-383
[86] CENTRAL BANK OF ECUADOR. 2008 *"Annual Report 2008,"* pg. 85
[87]REUTERS. 2009 *"Oil Prices in 2008"* in: http://www.preciopetroleo.net/precio-petroleo-2008.html accessed on 11/20/2013 at 9:00 AM

balance also decreased 34.44%, as a result of the fall in the price of imported goods. In this period, both the volume and value of total exports decreased.[88]

Total exports of petroleum and petroleum products declined in value, registering a 40.58% loss compared to 2009; this happened due to the fall in the price of a barrel of oil by 35.44% compared to 2008. This fall in price was attributed to largely pressure exerted by the market during this period, as well as the weakening of the US dollar; this resulted in price fluctuations, averaging $80 per barrel by the end of 2009.[89]

Imports also fell, showing a yield of -19.83% over 2008; according to the CBE, this is a consequence of a fall in prices, despite no great variations in the overall volume of imports. Nevertheless, there was a particularly remarkable decrease in the price of fuels, lubricants, and raw materials.

2010

At the end of 2010, the result of the trade balance was negative; it showed a deficit of -$1.78 billion, this result is mainly attributed to the decrease in non-oil exports and increase in value and volume of both oil and non-oil imports. Oil exports that year accounted for 55% of total export value showing an increase in value over 2009 of 38.89%, due to the increase in the international price of crude oil and its derivatives of about 35.83%.[90]

The value of imports grew by 37.01% in 2009; this growth is mainly as a result of the increase in volume (14.12%) and the unit price of imported goods (16.25%), especially the increase in value of imports of petroleum products (47.10%). The volume of imports of petroleum and fuels also increased; the increase in the unit value

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[88] CENTRAL BANK OF ECUADOR. 2012 *"85 years of the Central Bank of Ecuador (Historical Statistics Series)"* chapter II.
[89] CENTRAL BANK OF ECUADOR. 2009 *"External Sector Statistics"* in: http://www.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc201002.pdf accessed on 11/26/2013 at 10:14 AM
[90] CENTRAL BANK OF ECUADOR. 2010 *"External Sector Statistics"* in: http://www.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc201002.pdf accessed on 11/26/2013 at 10:35 AM

of oil only rose 4.68% while the increase in the value of petroleum and fuels was 16.25% according to the Economic Classification of Products for Use or Economic Destination (CUODE).

By the end of 2010, the new Code of Production Trade and Investment was approved, which brought changes to institutions for the promotion of exports, issuing certificates, and regulations concerning foreign trade. In 2011, another effective tariff reform that sought to boost production in the country was implemented. This reform decreased tariffs on certain raw materials and increased tariffs on others in order to protect the domestic sector, as well as reduce the deficit in the trade balance caused in part by the increase in imports of consumer goods in the country.[91]

2011

The trade balance of Ecuador in 2011 again showed a deficit of $600 million; however, this meant a recovery from the previous year in which the deficit in the balance was approximately $1,188,000. This year, the recovery in exports was mainly in oil exports and traditional products which showed further growth. Exports in 2011 showed an increase of 27.76% compared to 2010, oil exports accounted for about 58% of total exports, showing a growth of 33.49%, thus continuing the upward trend for the second year in a row. Growth in value of these exports in 2011 was due to the increase in the price of a barrel of oil by 35%, while export volume fell by 1.1% over the previous period.[92]

Meanwhile, imports for the second year recorded a growth in value of 19.02%, imports of fuels and petroleum volume decreased by approximately 7% but showed an increase in value of 25.8%; this was also attributed to the increase in the price of oil and its derivatives.

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[91] QUITO CHAMBER OF COMMERCE. 2011 *"Bulletin of Foreign Trade"* in: http://www.lacamaradequito.com/uploads/tx_documents/exportaciones301enero2011_r_.pdf accessed on 10/04/13 at 10:15 AM

[92] CENTRAL BANK OF ECUADOR. 2012 *"85 years of the Central Bank of Ecuador (Historical Statistics Series)"* chapter II.

2012

In the last year studied, 2012, Ecuador's trade balance showed a deficit for the fourth consecutive year. In December of 2012, the trade balance was -$142.2 million dollars; however, there was a recovery in the balance over 2011. During this period, exports had an increase of 7.1% compared to 2011; including growth in the value of non-oil exports by 7.8%, as well as an increase in the value of oil exports of 6.5%, attributed mainly to higher volume export levels.[93]

Total imports showed an increase in value of 4.5%, despite its lower export volume compared to 2011. That year, the prices of petroleum products increased, which resulted in an increase in the value of imports of these items by 7.0%. Non-oil imports also showed an increase of 4.7% compared to 2011. According to the CUODE,
". . . all products increased in the following order: Capital Goods (9.8%), Fuels and Lubricants (7%), Miscellaneous (3.7%), Consumer Goods (1.7%), and Commodities (0.8%)."[94]

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[93] CENTRAL BANK OF ECUADOR. 2012 *"External Sector Statistics"* in: http://www.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc201002.pdf accessed on 10/07/2013 at 11:35 AM

[94] CENTRAL BANK OF ECUADOR. 2012 *"External Sector Statistics"* in: http://www.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc201002.pdf accessed on 10/09/2013 at 10:00 AM

2.1.6. Non-oil Exports

Table No. 5 Non-oil Exports 2000-2012

THOUSANDS OF US DOLLARS							
TOTAL TRADITIONAL + NON-TRADITIONAL	TRADICIONALES						NON-TRADITIONAL
	TOTAL	BANANA PLANTAIN	COFFEE AND COFFEE PRODUCTS	SHRIMP	COCOA Y COCOA PRODUCTS	TUNA AND FISH	
2,488,840	1,305,736	821,374	45,584	285,434	77,361	75,983	1,183,104
3,579,347	2,169,528	1,665,419	44,104	281,386	86,610	92,009	3,579,347
2,981,133	1,480,750	969,340	41,689	252,718	129,057	87,947	1,500,383
3,615,874	1,737,367	1,100,800	70,423	298,964	169,641	97,539	1,878,507
3,518,899	1,673,874	1,023,610	84,136	329,793	154,235	82,100	1,845,025
4,230,181	1,925,283	1,084,394	92,249	457,539	176,126	114,975	2,304,898
5,183,637	2,200,175	1,213,489	99,423	588,160	171,088	128,015	2,983,462
5,992,750	2,447,094	1,302,549	123,300	612,887	239,361	168,996	3,545,656
7,097,738	2,966,100	1,640,528	130,137	712,724	290,259	192,451	4,131,638
6,898,419	3,436,025	1,995,654	139,716	664,419	402,634	233,602	3,462,395
7,816,700	3,705,706	2,032,769	160,946	849,674	424,912	237,405	4,110,994
9,432,174	4,558,643	2,245,308	258,592	1,174,769	584,232	295,742	4,873,531
10,106,807	4,411,476	2,091,681	260,151	1,275,334	455,686	328,624	5,695,332

Source: Central Bank of Ecuador
Prepared by: Author

2000

This period begins with a fall in traditional non-oil exports mainly caused for lower exports and low revenue generated by all items in this group; especially shrimp exports which demonstrated a total value that was 52.99% lower compared to 1999. This is attributed to low production and low export volume due to pests affecting crops during much of the year. Moreover, banana exports for 1999 constituted about 41.7% of the total value of traditional non-oil exports, but for 2000 it only represented about l3.9%. Although export volumes were good, the fall in the international price of fruit led to the before mentioned decline. As indicated by the CBE, total fruit prices declined by 14.8% over the previous year.

As indicated in the annual report for 2000 prepared by the ECB, the other products that make-up traditional exports, like cocoa and coffee, also experienced a drop in export value of 27.25% and 41.64% compared to 1999; these drops were caused by low production volumes of these items, as well as a fall in international prices.

Non-traditional export products, apart from cocoa and coffee, showed a different trend, as they recorded an increase of 2.34% compared to 1999. According to the CBE, "main export groups like flowers rose by 7.9%, standing at $194.7 million dollars; and metal goods rose 51.2%, reaching $135.6 million, respectively."[95]

The total volume of exports in 2000 grew by 2.9%; however, as a result of the reduction in value and the volume of exports of traditional products, as indicated above, the loss in volume of these exports was 1.2% compared with 1999. The export volumes of coffee, shrimp, cocoa, and processed tuna and fish had negative results. Meanwhile exports of nontraditional products for the second

[95] CENTRAL BANK OF ECUADOR. 2000 *"Annual Report 2000,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/10/2013 at 9:40 AM

year had a growth of 6.7% in volume; the increase in the volume of exports of fruit and fresh flowers stayed the same.[96]

2001

In 2001, banana exports experienced a recovery from the previous year; however, this year, the weather affected fruit production, decreasing export volume by 11% over 2000. However, due to a price increase in the international market, the difference in export volumes did not significantly affect the of value exports.[97] Shrimp exports showed no recovery, despite its export volume being higher than the year before; the international price for shrimp fell by 20.2% compared to 2000. Moreover, tuna and fish continued to increase since their export value rose by about 21.09% over the previous period.[98]

Within non-traditional exports, manufactured metal exports had an increase of 38.4%; vehicle exports accounted for almost 50% of this item. Flower exports were stable and even showed an increase during the first three quarters of the year; however, due to unfavorable weather conditions, performance during the last months of the year went down, as noted by the CBE.

The total volume of exports did not show a significant increase due to the apparent decline in the volume of exports of traditional non-oil products, which showed a loss of 10.1% this year; this is largely attributed to low volumes of banana exports (-11.05), while the other items that make up this classification showed an increase in export volumes. Non-traditional exports showed a significant increase in volume of 20.5%, coinciding with an increase in value; this increase in the exported volume includes vehicles, non-traditional agricultural products, and flowers.[99]

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[96] CENTRAL BANK OF ECUADOR. DEPARTMENT OF EDUCATION. 2002 *"Annual Bulletin No. 24,"* pgs. 124-126.
[97] CENTRAL BANK OF ECUADOR. 2001 *"Annual Report 2001,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/12/2013 at 10:15 AM
[98] CENTRAL BANK OF ECUADOR. 2001 *"Memoria Anual 2001,"* in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/12/2013 at 10:30 AM
[99] BANCO CENTRAL DEL ECUADOR DIRECCIÓN GENERAL DE ESTUDIOS. 2002 *"Boletín Anuario No. 24",* pág. 124-126.

2002

In this year, exports of bananas and shrimp again suffered a loss in value due to a fall in international prices of 4.1% and 12.9%, respectively. In the case of bananas, sales were also affected by participation in the production of this fruit from countries such as Colombia and Costa Rica, according to the annual report of the CBE. The coffee sector continued to show negative results as well, this year there was a decrease of 5.48% compared to 2001; this was due in part to the global supply of this product and the neglect and deterioration of plantations in the country. Meanwhile, cocoa exports actually increased, reaching a record increase of approximately 49.01% over the previous period, largely attributed to the increase in the international price of cocoa beans.[100]

Meanwhile, exports of nontraditional products continued their trend, showing an increase of 6.42% from 2001; specifically, flowers and canned fish. On the other side, metal manufacturing exports experienced a decline.

The volume and value of exports recorded a decrease of 2.0%; the loss in volume of exports is linked mainly to lower oil export volumes during 2002, which were down by 6.3%.

The volumes of traditional non-oil exports showed a significant growth of 15.3%. It should be noted that in the two previous periods there were negative growth. Traditional export volumes went down at the end of the year by 3.9% compared with 2001. 2001 was also one of the best years for exports in Ecuador up until that time, trading about 1554.8 kilos compared to 1494.9 kilos exported in 2002.[101]

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[100] CENTRAL BANK OF ECUADOR. 2002 *"Annual Report 2002,"* pg. 65 in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/14/2013 at 11:45 AM
[101] CENTRAL BANK OF ECUADOR. DEPARTMENT OF EDUCATION. 2009. *"Annual Bulletin No. 31"* pgs. 49-51

2003

During this year, traditional non-oil exports had a clear recovery of 17.33% growth; bananas increased the most in value from higher international prices of fruit. Fruit value grew by 13.56% over the previous year despite problems between producers and the government and the establishment of an official price of a box of bananas, as indicated by the CBE.

Shrimp, cocoa, and tuna also increase from 18.30%, 31.45% and 10.91%, respectively. Cocoa prices increased producing more revenue for the economy. In the case of shrimp, although the problems in production caused by climatic factors were overcome, prices of this crustacean in the international market remained lower.[102]

Exports of non-traditional goods also recovered in 2002, reaching a growth of 25.20%; non-traditional goods were the second fastest growing export after oil and its derivatives.[103] Among non-traditional exports, natural flowers, metal goods and processed foods increased the most, generating an amount close to $780 million according to information from the CBE.

Exports of traditional products registered a 9.4% increase in volume, with exports of coffee among those that showed a greater increase in exports. Non-traditional products increased by 4.2% in volume, specifically exports of metal goods, fruits, flowers, vegetable fibers, and products from mining.[104]

2004

Non-oil exports behaved differently than oil exports since in both cases, exports of traditional and non-traditional products showed negative returns over the

[102] CENTRAL BANK OF ECUADOR. 2003 *"Annual Report 2003,"* pgs. 78-79 in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/21/2013 at 10:15 PM
[103] CENTRAL BANK OF ECUADOR. 2012 "85 years of the Central Bank of Ecuador (Historical Statistics Series)" Chapter II.
[104] CENTRAL BANK OF ECUADOR. DEPARTMENT OF EDUCATION. 2009 *"Annual Bulletin No. 31"* pgs. 49-51

previous period according to CBE statistics. Traditional non-oil exports showed a negative return of -3.65% over 2003, as their share in total exports was drastically decreased.

Banana exports recorded a loss in total export value of 7.01%, attributable to the decline in international prices due to an oversupply in the market. As low temperatures during production volume dwindled, ". . . the participation of this category in exports fell from 18.2% in 2003 to 13.4% in 2004."[105]

Shrimp exports, despite the price in the international market, fell 7.3% as a result of attempts from Southwest Asian countries to enter the US market, presumably through dumping (a strategy of selling a product at a price lower than the cost of production in order to achieve greater participation).[106] Shrimp exports recorded a positive result with a growth in its approximate value of 10.31% compared to 2003.[107]

Exports that had the worst outcomes were tuna fish, which had an approximate loss in value of 15.84%, due to lower prices and slow production during this year; according to the CBE, there was only an increase in volume of 3.3%.

Cocoa exports were also reduced as a result of declining prices in the international market; although sales of cocoa produced products increased, this item had a negative result of 9.08% lower than in 2003. The opposite occurs with coffee exports, which recorded an increase of 19.47% in value as a result of higher prices in the international market and greater total volume exported.[108]

Non-traditional exports showed its first decline in this decade (-1.78%) due largely to the decline in exports of goods such as canned fish, vegetables, and

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[105] CENTRAL BANK OF ECUADOR. 2004 *"Annual Report 2004,"* pg. 56 in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/22/2013 at 8:46 PM
[106] CENTRAL BANK OF ECUADOR. 2004 *"Annual Report 2004,"* pg. 56 in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/22/2013 at 9:10 PM
[107] CENTRAL BANK OF ECUADOR. 2012 "85 years of the Central Bank of Ecuador (Historical Statistics Series)" Chapter II.
[108] CENTRAL BANK OF ECUADOR. 2004 *"Annual Report 2004,"* pg. 57 in: http://www.bce.fin.ec/frame.php?CNT=ARB0000006 accessed on 10/22/2013 at 9:46 PM

other metal manufactures; however, the fall observed wasn't higher because exports of other products such as flowers, wood, and textile fibers increased during this year.[109]

The volume of exports was similar to its value; this year's total exports measured by volume recorded an increase of 25.7%, mainly due to the significant increase in oil exports (37.2%). Exports of traditional products showed a decrease of 0.5% at the end of the year; this decline is mainly due to the decrease in banana exports. The volume of exports of nontraditional products, despite their decrease in value, grew by 0.5%.[110]

2005

In this year, exports of bananas and plantains performed better, recording an increase in their total export value by 5.94%; this was due largely to higher production volumes and increased exports. It should be noted that Costa Rica and Panama faced production problems during this same year, Ecuador's main competitors in fruit production. During this year, Ecuador was the leading exporter of bananas and plantains in Europe and the United States.[111] According to the CBE, the European Union changed its tariff for bananas to 176 euros per ton of imported bananas, despite protests from Ecuador to the World Trade Organization (WTO). The European Union did not back on its decision, putting the new tariff into effect in 2006.[112]

Shrimp exports again broke more volume records, increasing by 34.78%; which, according to the ECB, was significant. In previous years, shrimp production was affected by bad weather and pests like White Spot Syndrome.

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[109] CENTRAL BANK OF ECUADOR. 2012 "85 years of the Central Bank of Ecuador (Historical Statistics Series)" Chapter II.
[110] CENTRAL BANK OF ECUADOR DEPARTMENT OF EDUCATION. 2009 *"Annual Bulletin No. 31"* pgs. 49-51
[111] CENTRAL BANK OF ECUADOR. 2005 *"Annual Report 2005,"* pg. 77
[112] CENTRAL BANK OF ECUADOR. 2005 *"Annual Report 2005,"* pg. 78

Other traditional export products showed an encouraging performance, as was the case of cocoa; improved grain quality caught the attention of European and American companies that bought large amounts of Ecuadorian cocoa, the total export value of this item reflected a growth of 14.19%. In the case of tuna fish, it increased production volume and price boosted its total export value by 40.04%. Coffee was also aided by a rise in international prices, as well as an increase in export volume and demand from Colombia.[113]

Meanwhile, exports of nontraditional products performed well this year, reflecting an increase in value of 24.93% compared to 2004; specifically canned fish, fresh flowers, metal, industrialized food, and metal goods such as vehicles.

By the end of the year, traditional exports showed a growth of 4.0% in volume. Shrimp had the highest volume increase within traditional exports, which reached a record high of 117,399 kilograms. Similarly, tuna increased by 30.4%, which was the largest export of the last previous three years. Non-traditional exports continued to grow this year by 17.2% in its export volume; specifically, non-traditional agricultural products, metal manufactures, and non-oil mineral products.[114]

2006

Traditional exports registered an increase of 14.28% compared to 2005; the main reason for this improvement was an increase in international prices. According to the CBE, the export volume of these products had an increase of 2.5%.

Bananas, which represented nearly 56% of traditional export products, and 23.4% of non-oil exports, recorded an approximate increase in its export value of 11.90%. This was due to an increase in supply as a result of new small and mid-sized fruit producers which benefited from the new tariff conditions that the European Union introduced that year. Moreover, the US demand for the fruit

[113] CENTRAL BANK OF ECUADOR. 2005 *"Annual Report 2005,"* pg. 83
[114] CENTRAL BANK OF ECUADOR DEPARTMENT OF EDUCATION. 2009 *"Annual Bulletin No. 31"* pgs. 49-51

increased, while EU exports were affected due to new conditions. Banana producing countries in Central America and Africa benefited from these new conditions, causing a loss of participation in this market by Ecuadorian bananas.[115]

Shrimp exports meanwhile had a favorable performance, increasing its total export value by 28.55%; mainly due to improvement in volumes of both production and export. According to the National Aquaculture Chamber these improvements were due to increased efforts in genetic enhancements, production, and value-added diversification undertaken six years ago by the shrimp sector. Notably, Ecuadorian shrimp, despite internal problems related to their production, also faced problems such as tariffs imposed by the United States, whose process and complaint was analyzed by the WTO.[116]

Exports of cocoa and coffee also recorded an increase during this period, largely due to a recovery in prices abroad. The percentage increase in the total export value of these items was 28.55% and 7.78%, respectively.

In the case of exports of tuna fish, there was an increase in value of 11.34% compared to 2005; however, tuna exports showed a downward trend in recent years. According to the Corporation for the Promotion of Exports and Imports (CORPEI), the reduction in exports of tuna was linked to three causes: altered oceanographic conditions due to increased temperatures, altered fishing areas as a result of climate change, and the difficulty that small and medium boats face in finding schools of fish.[117]

As for non-traditional exports, these had an increase of 29.44% in value. Exports of metal manufactures had the most growth due to better prices and increased export volumes. Natural flower exports had an increase in total value by 9.5%, caused by an increase in export volumes. Mining export volumes also increased, resulting in a total export value of 126.9% higher than the previous year.

115 CENTRAL BANK OF ECUADOR. 2006 "*Annual Report 2006*," pg. 87
116 CENTRAL BANK OF ECUADOR. 2006 "*Annual Report 2006*," pg. 87
117 CENTRAL BANK OF ECUADOR. 2006 "*Annual Report 2006*," pg. 88

According to the CBE, this increase was attributed to the high demand and a rise in international prices for these products.

Traditional non-oil exports grew in volume by 2.5%, while exports of nontraditional products showed an increase in volume of 17.2%, continuing the trend of the last three years. “Other minerals” had the highest export volume within traditional non-oil exports with 27,933 tons shipped in 2006.[118]

2007

Again, banana exports contributed over 53% of traditional exports and 21.7% of total non-oil exports, both the export volume and the price of this fruit had increased during this period. The Ecuadorian banana opened in the Russian market, overtaking the United States as the largest purchaser of Ecuadorian bananas, covering 33.2% of exports.[119]

In the case of shrimp, exports increased by 4.20% this year; the sector was affected by lower international prices despite an increase in volume (8.8%).[120] In 2007, as a result of the intervention of the WTO, the United States Department of Commerce abolished the collection of antidumping duties of Ecuadorian production.[121]

Exports of cocoa performed better due to diversification and added value; which, during this year, enjoyed a 39.91% increase. Coffee and coffee related products had an increase in its total export value of 24.02%; and tuna and fish showed an increase in its export value by 32.02%.[122]

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118 CENTRAL BANK OF ECUADOR DEPARTMENT OF EDUCATION. 2009 *“Boletín Anuario No. 31”* pág. 49-51

119 CENTRAL BANK OF ECUADOR. 2007 *“Annual Report 2007,”* pg. 95

120 CENTRAL BANK OF ECUADOR. 2012 “85 years of the Central Bank of Ecuador (Historical Statistics Series)” Chapter II.

121 CENTRAL BANK OF ECUADOR. 2007 *“Annual Report 2007,”* pg. 95

122 CENTRAL BANK OF ECUADOR. 2012 “85 years of the Central Bank of Ecuador (Historical Statistics Series)” Chapter II.

Non-traditional exports showed a positive performance with growth of 18.84%, specifically metal manufacturing exports, which accounted for 19.4% of non-traditional exports. This product experienced a price increase of 15.8%; vehicles being the major import in this category.[123]

2008

Exports of traditional products grew by 21.21% compared to 2007, accounting for 42% of non-oil exports and about 16% of exports in 2008. This growth can be attributed to increased traditional product prices, especially: bananas, shrimp, and processed coffee.[124]

During 2008, exports of bananas and plantains accounted for 56.7% of revenue from traditional exports; according to CBE statistics publications, this item grew by 25.95%, attributed to higher prices (24.2%). The CBE noted the consolidation of Ecuadorian bananas in the Russian market.

The situation regarding the tariffs imposed by the European Union, and complaints made by fruit producing countries to the World Trade Organization (WTO), came to an apparent solution this year with the EU agreeing to gradually reduce tariffs.[125]

The shrimp sector in Ecuador recovered, due largely to the resolution by the WTO for the United States to suspend tariffs on this product as an antidumping practice. Shrimp exports in 2008 had an increase of 16.19%; despite decreased production in demand since it was considered an expensive product.[126]

In 2008, exports of cocoa grew by 21.16% over the previous period; there was a larger volume (1.6%) exported, but a rise in prices was what generated higher revenues. Coffee also showed an increase of 25.95% compared to the year 2007.

[123] BANCO CENTRAL DEL ECUADOR. 2007 *"Memoria Anual 2007",* pág. 97
[124] BANCO CENTRAL DEL ECUADOR. 2008 *"Memoria Anual 2008",* pág. 86
[125] BANCO CENTRAL DEL ECUADOR. 2008 *"Memoria Anual 2008",* pág. 86
[126] BANCO CENTRAL DEL ECUADOR. 2008 *"Memoria Anual 2008",* pág. 87

For the remaining category of traditional exports, tuna and fish had a very dynamic performance. According to CBE statistics, tuna and fish had an increase in value of 13.88%, determined largely by growth in the volume exported (2.2%), generating revenue of about $192 million.

Regarding nontraditional exports, there was an increase of 16.53%. This increase was largely due to sales growth outside areas such as metal goods, which accounted for 18.5% of non-traditional exports. Despite a reduction in volume exported, the rise in commodity prices contributed to its value at the end of the year, registering a growth of 6.2%. It is especially noteworthy that in 2008 non-traditional exports accounted for 58% of non-oil exports, showing change and diversification of the exportable supply of Ecuador.

2009

In the case of traditional exports this year, its value increased by 15.84% compared to 2008;[127] this was mainly due to the rising price of bananas from 2002 to 2009, averaging a growth rate in price of 11% and a rate of volume growth of 4%.[128] Bananas remained the flagship product of traditional exports as their export value was 29% of the total value of non-oil exports.

Shrimp exports showed a decrease in their export value of 6.78% over the previous period, representing 10% of the total value of non-oil exports according to CBE statistics. The decline in exports of this product was largely due to the international financial crisis of 2008 since this is considered a “nonessential” product; this factor led to an oversupply of the product due to the participation of producer countries such as Mexico, Thailand, Indonesia, Brazil, and China.

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127 CENTRAL BANK OF ECUADOR. 2012 *“85 years of the Central Bank of Ecuador (Historical Statistics Series)”* Chapter II.
128 ECUADORIAN INSTITUTE OF STATISTICS AND CENSUSES. 2009 *“Analysis of the Banana Agrifood System in Ecuador 2009”* pg.23

Tuna exports for the fifth year had a positive performance in 2009 increasing in value by 21.38%; however, there was a decrease in the volume of exports as a result of climate change. Despite this, international prices of tuna, as well as canned tuna, rose, offsetting the loss caused by lower export volumes. Exports from this sector accounted for 3% of non-oil exports in 2009.[129]

Cocoa and cocoa related products, which since 2004 performed well, generated during 2009 approximately $233 million in revenue, i.e. about 38% more than the previous year. Ecuadorian cocoa production benefited from strong demand for fine cocoa aroma worldwide. This productive sector invested in the development and use of new techniques and fertilization, increasing production volumes to supply a higher demand. In 2009, cocoa exports accounted for 6% of total non-oil exports.[130]

Coffee, which had been losing ground in the market, grew by only 7.36%; and its share in the total value of non-oil exports was only 2%.

Non-traditional exports were the most affected by the 2008 economic crisis, insomuch that in 2009 these decreased in value by 16.20% over 2008. According to a study by the CORPEI, product exports such as natural flowers, prepared or preserved fish, palm oil, metal manufactures, vehicles, and appliances were the most affected.

2010

During this year there was a recovery in exports of nontraditional products by 18.73% compared to -16.20% in 2009; meanwhile, exports of traditional goods also presented a growth of 7.85% over the previous year.

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[129] QUIROLA SUAREZ, W. *2009 "Analysis of exports of shrimp, tuna and fish, in the period 2003-2009"* pgs. 79-81

[130] CENTRAL BANK OF ECUADOR. 2012 *"85 years of the Central Bank of Ecuador (Historical Statistics Series)"* Chapter II.

Banana exports grew at a much slower rate compared to 2009; in 2010 the growth in value was only 1.86% and represented 26.3% of non-oil exports. Here we also noticed a 3% decrease in participation with respect to the participation held in 2009.[131] There was stagnation in banana sales due to problems related to the financial crisis in the major buyers of Ecuadorian bananas, Russia and the United States, while the EU market export volumes improved. Moreover, since 2007, Ecuadorian bananas have gained territory in markets such as Asia and the Middle East.[132]

Shrimp exports rebounded sharply in value (27.88%) compared to the fall the product experienced in 2009; its sales abroad accounted for 11% of non-oil exports. According to the National Chamber of Aquaculture, these results are due to the recovery in the international price and demand of this product that was affected by the international crisis.

As for cocoa exports, although lower than in 2009, there was a growth of 5.53%; representing 5% of non-oil exports during the period. According to CORPEI, 85% of cocoa exports corresponded to cocoa beans and, as mentioned above, increased sales abroad was due to the high demand for fine cocoa aroma.

Coffee exports showed a growth of 15.20% but its share of total non-oil exports was still below 2.9%. Growth in sales of coffee happened primarily due to an increase in the volume exported, mainly in processed coffee, to destinations such as Germany, Poland, Singapore, and the United States.[133]

Tuna and fish represented only 3% of non-oil exports, the export value of these products had an increase of 1.63%; but, the volume of exports diminished,

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[131] CENTRAL BANK OF ECUADOR. 2012 *"85 years of the Central Bank of Ecuador (Historical Statistics Series)"* Chapter II.
[132] http://www.hoy.com.ec/noticias-ecuador/exportaciones-de-banano-no-aumentan-en-el-2010-430974.html accessed on 10/01/2013 at 11:40 AM
[133] NATIONAL COFFEE COUNCIL. 2010 *"2010 Exports"* in: http://www.cofenac.org/exportaciones/exportaciones-2010 accessed on 10/02/13 at 9:00 AM

according to the Association of Tuna Fisherman of Ecuador (ATUNEC). Tuna catches have gone down in recent years due to climate change.[134]

Non-traditional exports showed a recovery with a growth in value of 18.73% over the previous year, representing 53% of the total value of non-oil exports. This year, canned fish and fresh flowers performed well, which had a share of total non-oil exports of 7.8% and 7.7% respectively, surpassing other traditional products such as cocoa (5.2%) and tuna and fish (3.1%).[135]

2011

Exports of traditional goods showed an increase in value of 23.02%, during all items pertaining to traditional non-oil exports reflected growth however that stand out mainly answer to coffee and processed tuna and fish and more cocoa derivatives.

Bananas had an increase of 10.46% compared to 2010, accounting for 22.92% of the total value of non-oil exports, according to the Association of Banana Exporters of Ecuador (AEBE). Banana exports have benefited through increased fruit production, i.e. export volume has also increased, which in turn has offset the negative variations in international prices.[136]

Shrimp exports again showed growth; in 2011, exports of this product came to represent approximately $1.174 billion, this represents an increase of 38.26% compared to 2010. According to *America Economia*, this was due to continued growth in the purchasing power of the Chinese population and the slow recovery of the US economy; these factors increased the demand of this product, with

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[134] Diario el Universo. 2010 "*Reduced tuna sales abroad*" in: http://www.eluniverso.com/2010/04/17/1/1356/reducen-ventas-atun-exterior.html accessed on 10/02/13 at 9:26 AM

[135] CENTRAL BANK OF ECUADOR. 2010 *"Foreign Sector Statistics"* in: http://www.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc201002.pdf accessed on 10/02/2013 at 10:35 AM

[136] Diario el Comercio. 2011 "*Banana exports rose in 2011*" in: http://www.elcomercio.com/negocios/exportacion-banano-subio_0_633536821.html. accessed on 10/05/2013 at 11:55 AM

other factors such as loss of participation from Asian producers like Vietnam and India.[137]

Cocoa and coffee export values grew in 2010; in this case, the growth was 37.49% and 60.67%, respectively. Cocoa accounted for 7.54% of non-oil exports while coffee accounted for 3.34%, as indicated by the statistics from the CBE.

During this period there was a notable increase in exports of coffee. According to the Ecuadorian Institute of Export Promotion and Investment in Ecuador (Proecuador), coffee sales increased as a consequence of a higher demand for this product, mainly lyophilized soluble coffee. Cocoa sales also increased due to the demand for fine cocoa aroma from Ecuador.[138]

Exports of tuna and fish also showed a positive return over the previous period, representing 3.80% of non-oil exports. In 2011, these had a growth of 24.47%, mainly caused for the increased catches and the export of canned tuna and fish meal.

Non-traditional exports showed a growth of 18.55%; according to the CBE, these exports have increased by more than $3.349 billion since 2002, only dropping in 2009 as a result of the international crisis. The increase of these exports is due in large part to the opening of new markets for Ecuadorian products.

2012

Traditional exports showed a decrease in both its export value (-2.6%) and volume (-7.1%), these exports represented 46.3% of total non-oil exports;

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[137] Revista América Economía. 2011 "*Ecuadorian shrimp exports up 52% by May*" in: http://www.americaeconomia.com/negocios-industrias/exportaciones-de-camaron-ecuatoriano-suben-52-hasta-mayo accessed on 10/06/2013 at 8:00 AM

[138] El Telégrafo 2001. "*Exports of cocoa and coffee improve in Ecuador*" http://www.telegrafo.com.ec/noticias/informacion-general/item/exportaciones-de-cacao-y-cafe-mejoran-en-ecuador.html accessed on 12/06/2013 at 9:15 AM

banana exports had higher percentages of participation within traditional exports, representing 20.7% of the total export value.

Banana exports in 2012 were lower in value than the previous year by 6.9%; this is mainly due to a lower volume exported during the period, since it was 8.1% lower than the volume exported in 2011. According to the Association of Banana Exporters of Ecuador (AEBE), volume loss this year was due to lost crops from unfavorable weather conditions.[139]

Coffee also had a drop in export volumes; however, thanks to market prices, coffee had an increase of approximately 8.2%, no losses were recorded in terms of export value compared with 2011. The performance of this sector is attributed to increased demand worldwide for instant, processed coffee, which is the main export within this branch followed by coffee beans.[140]

Shrimp exports showed an increase in both value and volume exported 11.5% and 8.2% respectively, prices for this product declined this year by 2.9%. Shrimp sales in this period accounted for 12.6% of non-oil exports, being the second most important second only to banana exports.

Meanwhile, exports of tuna and fish constituted 3.3% of non-oil exports during this period, experiencing a growth in value (27.7%) and volume (18.1%) as their unit price increased by 8.1%. The positive behavior of these marine-based products was because of substantial improvements in production and catches. Its main consumers, the United States and countries of the European Union, were increasingly demanding laws of sustainability, as indicated by Proecuador, ". . . the EU and US, increasingly governed by laws of sustainability and Ecuador, are drastically fulfilling the terms of these laws."[141]

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[139] El Telégrafo. 2012 "*Ecuador exported $2 billion worth of bananas in 2012*" in: http://www.telegrafo.com.ec/economia/item/ecuador-exporto-2-09168-millones-de-banano-en-2012.html accessed on 12/09/2013 at 11:10 AM

[140]DIARIO HOY 2012. "*Soluble coffee exports soared*" en: http://www.hoy.com.ec/noticias-ecuador/las-exportaciones-de-cafe-soluble-se-dispararon-581205.html accessed on 12/10/2013 at 9:00 AM

[141]ECUADORIAN INSTITUTE OF EXPORT PROMOTION AND INVESTMENT. 2013 "*Record Ecuadorian seafood exports, thanks to shrimp and canned tuna*" in:

Cocoa exports declined in value by 22.3% compared to 2011, just as its export volume went down by 4.9%. The decline in exports of this product are mainly due to climate, as the country mainly exports cocoa beans and the productions of this depend on good weather conditions.[142]

Non-traditional exports increased by 17.5% compared to 2011; since 2002, non-traditional exports have performed well, having only negative results in 2004 and 2009 (the year in which the international financial crisis negatively affected international trade). These positive results of nontraditional exports were due to Ecuador's ability to reach new markets with higher export volumes.

2.1.7. Exportable supply of Ecuador and its Main Destinations

2.1.8. The composition of non-Oil Exports 2000-2012

Throughout the analysis of the external trade sector carried out in the previous section we explored how traditional export products of Ecuador continue to shape much of the country's export supply; yet, the value and volume of exports have experienced certain changes.

In the analysis of the period 1990-1999, exports of traditional products represented about 45% of the total export value, followed by oil exports, and thirdly exports of non-traditional products, as shown in the graph below.

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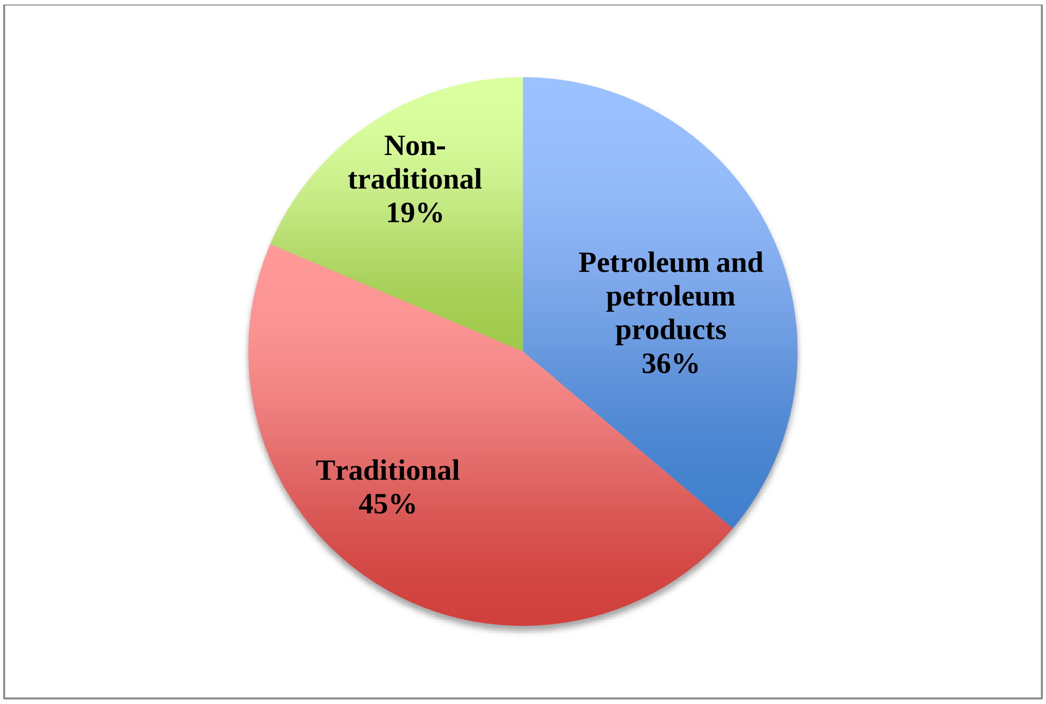
http://www.proecuador.gob.ec/2013/02/25/record-en-exportaciones-pesqueras-de-ecuador-gracias-al-camaron-y-enlatados-de-atun/ accessed on 12/10/2013 at 10:17 AM

[142] El Telégrafo. 2012 "*Ecuador exported $425.7 million in cocoa in 2012*" http://www.telegrafo.com.ec/economia/item/ecuador-exporto-4257-millones-en-cacao-en-2012.html accessed on 12/11/2013 at 10:00 AM

Graph No. 5 Exports by Product Participation 1990-1999

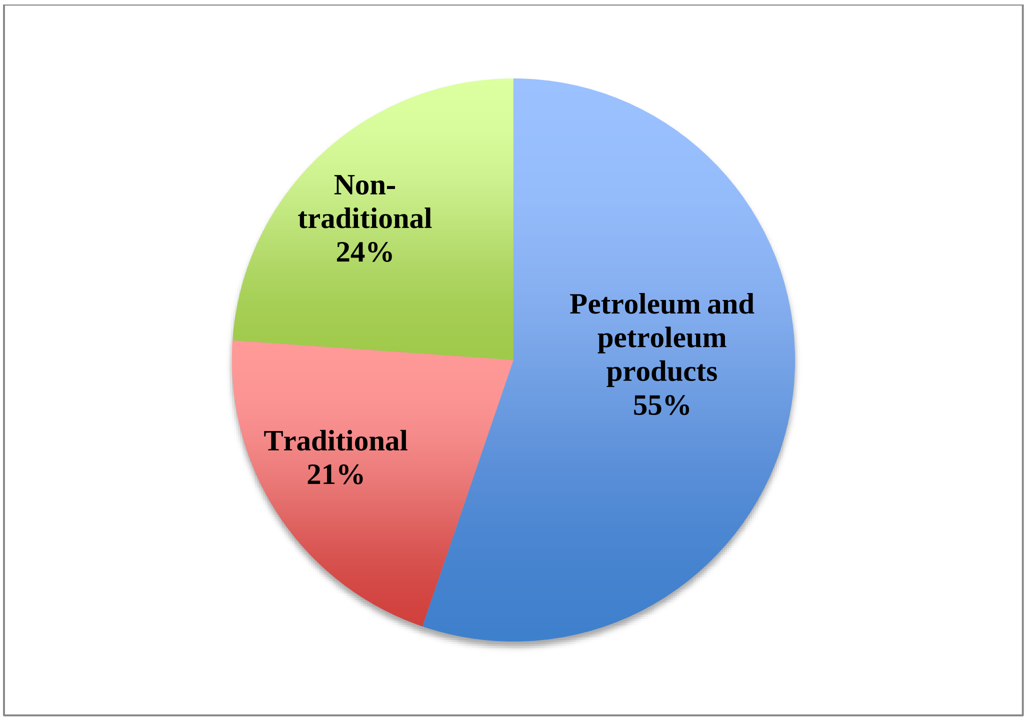


Source: Central Bank of Ecuador
Prepared by: Author

In the following analyzed period we can see a clear change in the share of exports; during this period exports of traditional products do not represent more than 21% of total export value, while exports of oil showed a significant increase due to international prices of these goods, influenced by exogenous factors such as the conflict in Iraq and the global economic crisis.

One can also see the growth in the share of traditional exports; which, despite being affected by the crisis in 2008 and 2009, exceeded in their participation in value compared to non-traditional export products.

Graph No. 6 Exports per Share of Products 2000-2012

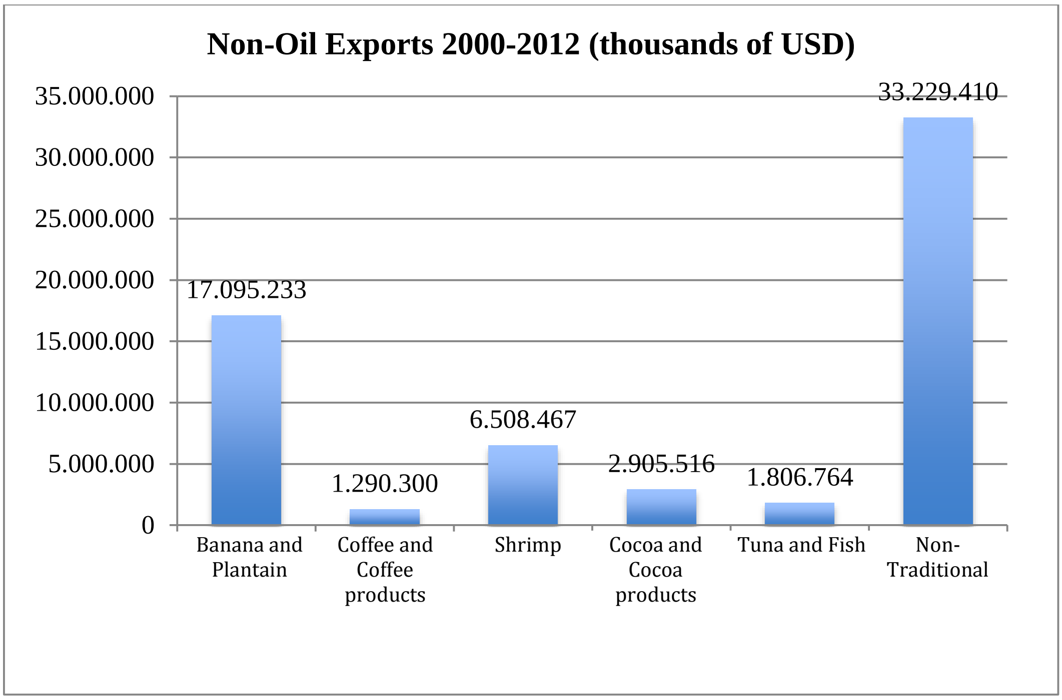


Source: Central Bank of Ecuador
Prepared by: Author

During the period 2000-2012, we observed that exports of certain traditional products lost some participation; the most notable ones are shrimp exports and coffee, which were respectively about 13% and 4% lower in value compared to participation in the period 1990-1999, just as the participation of banana exports also showed a decrease in their share.

The exports that stood out the most during this period were non-traditional products; these accounted for about 53% of non-oil exports, far outpacing traditional export products such as bananas and shrimp.

Graph No. 7 Total Traditional and Non-Traditional Exports 2000-2012



Source: Central Bank of Ecuador
Prepared by: Author

Exports of non-traditional products had an approximate growth of 381.39% from 2000 to 2012. During these years, new products became members of non-traditional exports, such as: palm, broccoli, and other nontraditional fruit. Meanwhile, the products that showed the highest yields within this classification were metal goods; within these, vehicle exports to neighboring countries.

Metal goods exports grew at an approximate rate of 646%; exports of scrap metal or scrap performed even better with a growth of 6,744%.

Exports of nontraditional products in this period, according to the Central Bank of Ecuador, were mainly composed of the following tariff items:[143]

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[143] CENTRAL BANK OF ECUADOR. 2012 *"Foreign Sector Statistics"* in: http://www.bce.fin.ec/documentos/Estadisticas/SectorExterno/BalanzaPagos/balanzaComercial/ebc201002.pdf accessed on 12/16/2013 at 9:30 AM

TARIFF ITEM	DESCRIPTION
0603.11.00.00	FRESH CUT ROSES, FOR BOUQUETS OR ORNAMENTAL
1604.19.00.00	OTHER PREPARATIONS AND CANNED FISH, WHOLE OR IN PIECES, EXCEPT MINCED
0603.19.20.00	OTHER FRESH FLOWERS AND BUDS, CUT FOR BOUQUETS OR ORNAMENTAL
0603.19.10.00	- - - Gypsophila (Rain, Illusion) (Gypsophilia Paniculata L)
8703.21.00.10	GAS MOTOR VEHICLES, CYLINDER <= 1000 CC, ASSEMBLED
2616.10.00.00	ORES AND SILVER CONCENTRATES
2616.90.10.00	GOLDEN MINERALS AND CONCENTRATES
3203.00.19.00	OTHER PLANT EXTRACTS
7326.20.00.00	ARTICLES OF IRON OR STEEL WIRE
3926.90.70.00	OTHER MANUFACT. PLASTIC AND ARTICLES OTHER MAT. OF PA 3901 TO 3914
3926.90.90.90	OTHER MANUFACT. PLASTIC AND ARTICLES OTHER MAT. OF PA 3901 TO 3914
4205.00.90.90	OTHER ARTICLES OF LEATHER OR COMPOSITION LEATHER.
4016.99.90.00	OTHER ARTICLES OF VULCANIZED RUBBER
4403.20.00.00	RAW WOOD INCL. DEBARKED, OR ROUGHLY SQUARED OF CONIFERAS
2301.20.11.00	FISH MEALS / DEGREASING, UNFIT FOR HUMAN FOOD, C / CONT.DE FAT> 2% BY WEIGHT
4413.00.00.00	DENSIFIED WOOD BLOCK, TABLES, STRIPS, OR PROFILE.
1106.10.00.00	FLOUR, DUST, AND VEGETABLES OF HEADING 07.13 N§
2008.99.90.00	OTHER FRUIT / FRUIT AND OTHER PART. GROCERIES. PLANTS, PREP. OR PRESERVATION. OTHERWISE
4905.91.00.00	CHART ARTICLES IN THE FORM OF BOOKS OR FLYERS
2401.10.10.00	BLACK TOBACCO DENERVATED OR NON DENERVATED
2401.10.20.00	BLONDE TOBACCO DENERVATED OR NON DENERVATED
2008.99.90.00	OTHER FRUIT / FRUIT AND OTHER PART. GROCERIES. PLANTS, PREP. OR PRESERVATION. OTHERWISE
CHAPTER 62	CLOTHING AND ACCESSORIES (ACCESSORIES), KNITTED OR CROCHETED
0809.10.00.00	DAMASCOS (ALBARICOQUES, APRICOTS) FRESH
2007.99.91.00	OTHER JAMS, JELLIES, FRUIT MARMALADES, OR OTHER FRUITS

While many of these products came to constitute part of the export supply in the last twenty years, their level of participation in exports was much lower. As previously indicated, an increase in the share of non-traditional exports are largely due to higher export volumes of products, indicating an improvement in these economic sectors within the country and greater diversification of activities.

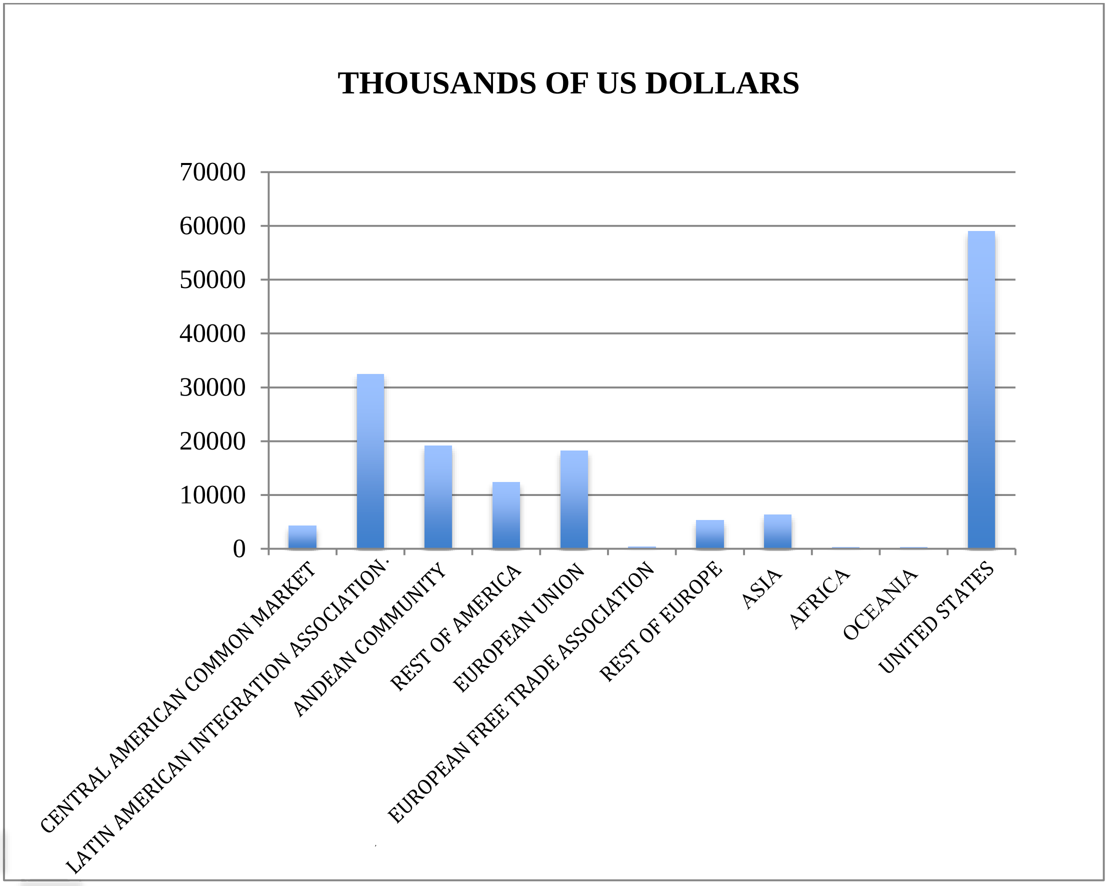
Another key factor in the growth of non-traditional exports is that many of these productions contain a higher percentage of added value; which in turn protects them from price changes in the market, as in the case of traditional products and oil.[144]

[144] CORTEZ, A. PRIETO, Y. 2013 *"Determinants of Exports of Primary Products of Ecuador for the Period 2000-2012"* in: http://bibdigital.epn.edu.ec/bitstream/15000/6890/1/CD-5170.pdf

2.1.9. Top destinations of Ecuadorian exports 2000-2012

This period shows a similar behavior with regard to major destinations or partners of Ecuador. During this analysis, the United States of America remained the main buyer of Ecuadorian products, 37% of exports went to this country, beating by a wide margin the closest trading partners, such as the Latin American Integration Association and the Andean Community, which represented 21% and 12% of total exports.

Graph No. 8 Ecuador's total exports by destination or economic bloc 2000-2012



Source: Central Bank of Ecuador
Prepared by: Author

Ecuadorian exports registered a growth on all continents, i.e. Ecuadorian products arrived in larger volume to these markets. Comparing the periods 1990-1999 to 2000-2009, we can see that the continent that recorded the highest growth of Ecuadorian products was the Americas, with a growth of 196.74%.

Table No. 6 Comparative table of total exports of Ecuador by continent

Thousands of US Dollars					
PERIODS	**ASIA**	**EUROPE**	**AFRICA**	**OCEANIA**	**AMERICA**
1990-1999	4,354.00	8,119.10	53.20	181.00	25,950.60
2000-2009	4,379.53	17,308.61	116.71	211.09	77,006.53
% OF GROWTH	0.59%	113.18%	119.37%	16.63%	196.74%

Source: Central Bank of Ecuador
Prepared by: Author

During the same analysis, there was a 165.87% growth in exports to the United States, Ecuador's main trading partner; while exports to member countries of the Latin American Integration Association recorded a 241.97% growth.

There was also a growth in exports to the European Union of 90.58%. The commercial area that had the highest growth was the CACM, with a growth of 443.98%.

From 2010 to 2012 the trends above presented stayed the same. There was a recovery in major markets until early 2010 when they were strongly affected by the international crisis.

The United States remains the largest trading partner of Ecuador in this period of analysis. As has been observed, exports to this destination increased in the years following the dollarization of the Ecuadorian economy. By 2012, nearly 1,190 items of products were exported to the United States; the highest percentage of Ecuadorian exports that target this country were oil, shrimp, bananas, and flowers.[145]

99% of Ecuadorian products exported to the US benefit from the Andean Trade Promotion and Drug Eradication Act (ATPDA). This law is the development or renewal of the APTA held in 2002 by former President of the United States

[145] Revista EKOS. 2012 "*Trade between Ecuador and the US*" in: http://www.ekosnegocios.com/revista/pdfTemas/652.pdf accessed on 07/06/2014 at 6:00 PM

George W. Bush. The ATPDEA sought trade and political cooperation between the United States and the countries of the Andean Community by eliminating tariff barriers in the United States in exchange for commitment, cooperation, and investment in the countries of the Andean Community in the eradication of coca crops and activities related to drug trafficking. The ATPDEA included among its headings oil, which resulted in a greater benefit for Ecuador. Since its enactment, the ATPDEA has been renovated, as it would only be in effect until 2006. However, in 2013, Ecuador, through an official statement, unilaterally renounced to these preferences. Nowadays, most Ecuadorian products entering the US market benefit from the GSP (Generalized System of Preferences).[146]

The second trade partner of Ecuador and first trading partner in South America was Peru, approximately 8% of total Ecuadorian exports went to this country, The magazine EKOS (2013), addressing the issue of the commercial relationship between Ecuador and Peru, states that the main Ecuadorian product exported to Peru is oil, followed by foodstuffs, and chemicals.[147] Trade relations between Ecuador and Colombia, which is Ecuador's second largest trading partner in the region, is not strictly based on oil exports but foodstuffs; followed by vehicles and components used for the manufacture of automobiles.

Ecuador Bilateral trade with the EU bloc has also shown an increase compared with that seen in the previous period analyzed. Similar to exports to the United States, Ecuadorian products enjoy GSP benefits; 97% of products exported to the EU are raw materials like food or agricultural based products. In recent years, the European market has become one of the main agendas of the Ecuadorian government, not only because of the advantages it offers but also the deterioration of trade relations with the United States. In July 2014, after four

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[146] ANDES Public News Agency of Ecuador and South America. 2013 "*Ecuador unilaterally renounces the ATPDEA (full statement)*" in: http://www.andes.info.ec/es/renuncia-atpda/ecuador-renuncia-unilateralmente-atpdea-declaracion-completa.html accessed on 07/06/2014 at 6:00 PM

[147] EKOS Magazine LARGE COMPANIES IN ECUADOR. 2013 "*Analysis, facts, and figures of the Ecuadorian economy*" pgs. 46-47

years of negotiations, Ecuador and the European Union signed a trade agreement.[148]

During the analyzed period, the largest buyers of Ecuadorian products within Europe were Italy and Germany; in the case of Italy, the country is again the main buyer of Ecuadorian products like it was in the first period of analysis (1990- 1999). Exports to this country were mainly composed of bananas and products of agricultural origin, the same applies to Germany and the Netherlands.

Japan was the main trading partner of Ecuador in Asia during the analysis period; exports to this country were composed mainly of foodstuffs such as bananas, cocoa, shrimp, and fish, and non-food like wood. It should be noted also that over the past five years, Ecuador's trade relations with Asia have improved, especially with China. Since 2009, China has been the main buyer of Ecuadorian oil, to the point that it has prepaid nearly a billion dollars; China is one of the largest foreign investors in Ecuador.[149]

2.1.10. Policies, institutions, and targeted actions on the foreign trade of Ecuador 1999-2012

2.1.11. Ecuador Trade Policy

Trade policies should take into consideration the various sectors of the economy; whether these be companies, producers, industry chambers, or the various government ministries associated with production and trade. Trade policies should also have the goal of taking actions that benefit all, especially those sectors that generate income for the country through the export of its products and services to other geographical areas of the world.

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[148] MINISTRY OF FOREIGN TRADE OF ECUADOR. 2014 "*Agreement between Ecuador and EU was closed*" in: http://comercioexterior.gob.ec/se-cerro-el-acuerdo-entre-ecuador-y-la-ue/ accessed on 07/07/2014 at 7:00 AM

[149] SCHNEYER J, MEDINDA N. 2013 "*China took control of oil from Ecuador*" in: http://www.eluniverso.com/noticias/2013/11/27/nota/1832696/reporte-agencia-reuters-china-tomo-control-petroleo-ecuador accessed on 07/07/2014 at 8:00 AM

However, most trade policies are developed by third parties, especially international organizations such as the WTO. This compels countries to incorporate these policies into its economic structure through internal reforms.[150]

Some of the principles and objectives of the WTO is for countries not to discriminate products from other countries, eliminate trade barriers, not to impose arbitrary measures between countries, seek greater competitiveness by eliminating unfair trade practices, aid the least developed countries, and ultimately protect the environment.[151]

WTO principles seek to benefit disadvantaged nations; but in doing so, this can cause problems in developing economies because trade liberalization may result in partial or total destruction of local industries.

The WTO, among its tasks, conducts evaluations of its members concerning that country's trade policies; mainly, the WTO seeks to analyze if the member country has fulfilled the objectives set by the organization. One could say that those countries that get a better result in this test are those which in theory are more successful in foreign trade.

The positive results of Ecuador's foreign trade have mainly depended on its geographical location and climatic conditions which have favored the cultivation of all types of fruits and plants, as well as the production of seafood for most of the year. Ecuadorians make quality products with unique features that make them superior to similarly produced goods in other parts of the world. These factors have contributed to Ecuador's economy throughout its history; Ecuador has stood as a top producer of bananas, palm, cocoa, roses and flowers, balsa, shrimp, and tuna.[152]

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150 INFORMAL WORKING GROUP ON GENDER AND TRADE (IWGGT). 1998 *"Trade Policy, WTO, and Gender"* in: http://wide.gloobal.net/wspa/wide13/wide2.htm

151 http://www.wto.org/spanish/thewto_s/whatis_s/what_stand_for_s.htm accessed on 12/20/13 at 9:23 AM.

152 TONON, L 2010 *"Ecuadorian exports after ten years of dollarization and the role of COREPEI"* pg. 127

In contrast, the management of trade policy, and the institutionalization of trade as such in the country, has not been a top priority issue; Ecuador only recently joined the World Trade Organization in 1996, and during the next year the Foreign Trade and Investment Law was enacted.[153] This means that even before these two events, decisions in terms of trade were made by institutions such as Customs and Ministries of Industry and Production, as well as by executive action.

Ecuador's participation in the WTO has changed according to the positions of governments that have varied since the country's accession to this organization; however, we can see the country's participation in the complaint made to the European Union (EU) of discriminatory treatment of banana producers, when a tariff on imports of bananas in the EU, except for imports whose origin was former colonial countries, specifically the African, Caribbean and Pacific (ACP) regions, was imposed.[154]

This dispute came to an end in 2007 when the European EU agreed to gradually reduce the tariff imposed on imports of bananas.

In 2005, the WTO made its first trade policy review of Ecuador. This review analyzed the work done by Ecuador since the 1990s to liberalize its trade regime and improve; however, the review notes that there are several non-tariff restrictions and obstacles that constitute an impediment to foreign trade. These are:[155]

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[153] Id. pg. 131

[154] DIARIO LA HORA. 2006 "*Ecuador sues the European Union before the WTO over bananas"* in: http://www.lahora.com.ec/index.php/noticias/show/500184/-1/Ecuador_presenta_demanda_contra_Unión_Europea_ante_la_OMC_por_banano.html#.UqiZVpHstMI accessed on 12/21/13 at 8:00 AM

[155] WORLD TRADE ORGANIZATION. 2005 *"Trade Policy Review of Ecuador, Report by the Secretariat"* pg. 9

- There is a system of import licenses, on which the WTO states that, “We must ensure that the licensing system is not used as a non-tariff barrier to trade.”[156]
- Coffee exports and its derivatives paid to the producer’s association equivalent to 2% of its value.
- The prices of bananas, cocoa, coffee, shrimp, and fish products are set by the State and exports are subject to payment of a “redeemable quota” equivalent to 0.15% of the value (0.05% in the case of oil).
- Customs procedures that benefit Ecuador industries who work in the domestic market.
- Ecuador is not a member of the Multilateral Agreement on Government Procurement of the WTO.
- Ecuador does not have a general legal framework for competition policy.

This analysis reflects Ecuador’s need for greater coordination between the State and the productive sectors. It especially emphasizes that Ecuador, by not having its own monetary policy, should take actions so that the country is not so affected by external shocks. The WTO report also emphasizes the actions that the Ecuadorian government should take in the different productive sectors, i.e. sectorial policies, noting especially the problems facing the manufacturing sector and industry. However, the WTO report notes that the State sought to solve this through the establishment of tariffs and safeguard measures.[157]

As mentioned earlier, in 1997 the Foreign Trade and Investment Law (LEXI) went into effect, which regulates the trade policy of Ecuador. This law also created the Council of Foreign Trade and Investment (COMEXI), which is composed of six representatives from the public sector and five representatives of Chambers of Industry within the country. Its main function is to determine the

[156] Id.
[157] Id. pg. 10

policies of foreign trade in goods, services, and manufacturing, considering the international trade commitments of the country.[158]

In 2010, the new Code of Production, Trade, and Investment (COPCI), within their Repeal Provisions, expressly annulled the Foreign Trade and Investment Law published in 1997; within the changes introduced by the COPCI, the COMEXI was replaced by the COMEX.

The LEXI primarily sought to promote Ecuadorian exports and attract investment by seeking and establishing the parameters for the State to devise strategies that generate greater competitiveness, better use of productive resources, promote sustainable development, and integrate Ecuador's economy into the international community.

In 2011, the WTO conducted its second review of Ecuador trade policies. This report discussed WTO regulatory changes that Ecuador had implemented and the greater control the State now had over the economy and business activities. It also noted however that these changes had harmed in some ways foreign direct investment, as these have caused concern among investors. Finally, it pointed out that while the country was immersed in the process of regulatory changes, it could not accurately assess the impact of said changes.[159]

The report noted an increase in tariffs of 38.7% compared to 2005 as a result of the policies adopted by the State in the restriction and substitution of imports.

In terms of the sectors, the WTO highlighted changes in contracts for mining and hydrocarbons, and the continuing crisis in the manufacturing sector that the State tries to compensate for through industry protectionism, safeguard measures, and tariffs.

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[158] UNIVERSITY OF BARCELONA. 2011 "*Ecuador Trade Policy*" in: http://www.comercioexterior.ub.edu/fpais/ecuador/politica_comercial_del_ecuador.htm accessed on 12/22/2013 at 9:25 AM

[159] WORLD TRADE ORGANIZATION. 2011 *"Trade Policy Review of Ecuador, Report by the Secretariat"* pg. 12

In Ecuador, from 2009 on, control measures to imports have hardened; and there has also been a series of tax reforms such as an increase in the Special Consumption Tax (ICE) in certain products. These reforms, however, have no direct impact on the domestic industry or production since the products subject to this tax are not manufactured domestically or they do not have significant participation in the national economy.[160]

2.1.12. Changes in the economic model and development

The Constitution of Ecuador, adopted in 2008, sets the objectives of economic policy of the country. Paragraph 2 of Article 284 (Objectives of economic policy) states that domestic production and competitiveness will be encouraged through the accumulation of scientific and technological knowledge, a strategy of integration into the world economy and complementary productive activities; while paragraph 4 of that article means to promote the incorporation of value added in domestic production, and finally number 8 talks about the fair exchange of goods and services with transparent markets.

Similarly in the Constitution, the objectives of the country's trade policy in accordance with Article 304 establishes:[161]

"Trade policy has the following objectives:

1. To develop, strengthen, and revitalize domestic markets from the strategic goal set in the National Development Plan.
2. To regulate, promote, and implement appropriate actions to boost strategic insertion into the global economy.
3. To strengthen the productive apparatus and national production.
4. To contribute to food and energy sovereignty are guaranteed, and internal inequalities are reduced.

[160] ECONOMINT S.C.C. 2010 "*Tariff Reform*" in: http://www.comercioexterior.ub.edu/fpais/ecuador/politica_comercial_del_ecuador.htm accessed on 12/22/2013 at 9:25 AM

[161] CONSTITUTION OF THE REPUBLIC OF ECUADOR. 2012 Seventh Section, Trade Policy, pgs. 204-205

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."

Article 305 states that creating and fixing tariffs are the responsibility of the Executive Branch and Section 306 explains that the State shall promote environmentally responsible exports, prioritizing those that generate more employment and value but especially exports of small and medium producers of the artisan sector.

After analyzing these items we can observe how the Ecuadorian State has taken a larger role in terms of exports, focusing on small and medium industry and especially stressing the need to improve the country's productive apparatus.

Based on the provisions of the Constitution, in 2010, the Organic Code of Production, Trade, and Investment, whose primary purpose is the transformation of the productive matrix of the country, was established.

With regard to foreign trade and exports, the purposes set out in the Code are: to seek for strategic import substitutions, to promote and diversify exports, and to facilitate foreign trade operations in the country. Within the code, parameters for the creation and application of tariffs, and any type of trade defense mechanism established in relation to this, are outlined. The State can restrict or prevent imports that may harm the domestic industry, or those that directly compete, and apply these restrictions in order to protect the balance of payments.[162]

2.1.13. Institutions

As in many other sectors in Ecuador, there was no institutionalism of foreign trade, or an effort to maintain any kind of this institution, in order to better coordinate the efforts of all parties involved.

[162] ORGANIC PRODUCTION CODE OF TRADE AND INVESTMENT. Published in the Official Registry Supplement 351 on 12/29/2010 Title III, Chapter I, Art. 88

Foreign trade in Ecuador was mostly handled by State institutions; there was a strong political or institutional framework that covered all relevant aspects. Foreign trade in the country was led by the various Ministries, such as Agriculture, Production, and even at one point by External Relations.

Similarly, the formerly active National Customs Corporation (CAE) had some involvement in the development and implementation of trade policies and management of foreign trade.

Basically, initiatives seeking to promote and encourage the country's exports to the world were private. One of the oldest institutions in regards to foreign trade in Ecuador is the Ecuadorian Federation of Exporters (FEDEXPOR). Created in 1976, this professional, national body's main objective is the representation of the export sector and also to provide training and advice to this sector; just as the institution conducts research and analysis concerning foreign trade and productive sectors.[163]

In 1996, with the creation of the now repealed LEXI, the Corporation for the Promotion of Exports (CORPEI) was also created as part of the Ecuadorian System of External Promotion. Together with the CORPEI, the Commercial Service was also created which was responsible for exercising representation functions and negotiations of trade policies in world cities that were considered to have strategic or commercial importance through embassies and diplomatic services of Ecuador in these countries.

The CORPEI is located in the city of Guayaquil and is a nonprofit, private legal entity, able to manage its own funds. The CORPEI, as set out in the LEXI, also collaborates with government agencies such as the Ministry of Foreign Trade, the Ministry of Industry and Fisheries, the Commercial Service, and the bodies of the Ecuadorian Foreign Service.[164]

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[163] FEDERACIÓN ECUATORIANA DE EXPORTADORES. 2013 "Acerca de: *Historia y antecedentes*" en: http://www.fedexpor.com/acerca-de citado el 23/12/2013 7:00 AM
[164] LAW OF FOREIGN TRADE AND INVESTMENT. Law No. 12 1997 Gazette Supplement 82. in:

Article 19 established that the Directorate of the CORPEI be composed as follows:[165]

a. A permanent delegate of the Ministry of Foreign Trade, Industrialization and Fisheries;
b. A permanent delegate of the Ministry of Foreign Affairs;
c. A permanent delegate of the Ministry of Agriculture;
d. The General Manager of the National Finance Corporation;
e. A delegate from the Ecuadorian Federation of Exporters (FEDEXPOR);
f. A delegate from the National Federation of Chambers of Industry;
g. A delegate of the National Federation of Chambers of Commerce;
h. A delegate of the National Federation of Chambers of Agriculture;
i. A delegate of the National Federation of Chambers of Small Industry;
j. A delegate of the National Artisan Defense Board;
k. A delegate of agricultural producers for export of the Coast and Galapagos;
l. A delegate of agricultural producers for export of the Sierra and the Orient;
m. A delegate of the National Chamber of Aquaculture and National Chamber of Fisheries.

The main functions of the CORPEI are; the non-financial promotion of exports based on the financing of activities such as information, technical assistance, training, market opening, and external promotion, in order to increase the export supply of Ecuador with a higher added value.

The Funding for CORPEI was based on the resources allocated by the State, and redeemable shares of 1.5 per thousand on private sector exports over $3,333, exports of a lesser amount must pay a fee of $5.00. In the case of oil, the

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http://www.uasb.edu.ec/UserFiles/381/File/LEY_DE_COMERCIO_EXTERIOR_E_INVERSIONES_LEXIS.pdf accessed on 12/23/2014 at 8:50 AM

[165] Id. pg. 8

contribution was 0.50 per thousand of its value exceeding $20,000, exports below this amount will also apply the fee of $5.00.[166]

Those who contributed to CORPEI received a voucher for the value of their share; once it reached $500, CORPEI handed a certificate of contribution which could be exchanged for its value in 10 years without interest. During this time, CORPEI would use the interest generated by this fund to finance other activities within their jurisdiction.

According to information from the Center for Information and Business Intelligence, between 1998 and 2008, CORPEI successfully increased non-oil exports, which increased from $3.2 billion to $6.8 billion. The CORPEI also effectively diversified the export supply of Ecuador; according to its report, the number of exported items increased from 1387 to 2960, as well as an increase in exporting entities of 321.03%. Finally, as a result of its work in the Foreign Service, Ecuadorian exports reached 145 of 224.[167]

In September 2009, the President of Ecuador, Rafael Correa, announced that he would retire the redeemable fees that exporters paid to the CORPEI because this was a private entity which could not enforce payments for international goods. Thus, in February of 2010, President Correa announced that the promotion of the country's exports would be through the Vice Ministry of Foreign Trade.[168]

On May 31, 2011, the first office of the Ecuadorian Institute for the Promotion of Exports and known Investments under the name Proecuador was opened; this would be attached to the then Vice Ministry of Foreign Trade which would be responsible for promoting exports. The then Chancellor, economist Ricardo Patiño, stated, "Proecuador is born from CORPEI, which until recently had been a public-private entity; but, now their roles can be differentiated because their

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[166] LAW OF FOREIGN TRADE AND INVESTMENT. Law No. 12 1997 Official Registry Supplement 82 pg. 10 in: http://www.uasb.edu.ec/UserFiles/381/File/LEY_DE_COMERCIO_EXTERIOR_E_INVERSIONES_LEXIS.pdf accessed on 12/23/2014 at 8:50 AM

[167] TONON, L. 2010 *"Ecuadorian exports after ten years of dollarization and the role of CORPEI"* pgs. 157-158

[168] Id. 158-159

services are different." The then Deputy Minister of Foreign Trade, Francisco Rivadeneira, said that ". . . the CORPEI functions as a 'bridge' between the private sector and the state, while Proecuador is the 'official agency' that promotes exports and investments."[169]

Proecuador has a Business Intelligence Center which is responsible for finding new markets and opportunities for Ecuadorian products, as well as the requirements of access to them. It also has a network of sales offices worldwide in essential markets or potential markets for exports. It is also responsible for promoting and seeking foreign investment in Ecuador, as well as providing advisory services and training for entrepreneurs interested in exporting.

The initiative and modus operandi of Proecuador came from similar existing bodies in the region, such as the Commission for the Promotion of Peru for export and tourism (PROMPERÚ) and the Institution for the Promotion of International Tourism, Foreign Investment, and Non-traditional Exports in Colombia (Proexport).

Similarly, the national government used the help of experts from South Korea and Chile in creating Proecuador.[170]

The results of Proecuador's management since 2011 are quite positive, the number of exporters that have benefited from its services is increasing. Moreover, exports of nontraditional products and the participation of new tariff items in this category have continued to increase; among these are new metal manufactures like range stoves and appliances.[171] Proecuador has worked to open new markets such as Turkey, Iran, and strengthen exports to the Russian market as a result of work undertaken not only by the institution but also actions

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[169] DIARIO HOY. 2011 "*Government Launches Institute of Export Promotion*" in: http://www.hoy.com.ec/noticias-ecuador/gobierno-inaugura-instituto-de-promocion-de-exportaciones-478138.html accessed on 12/23/2013 at 11:20 AM

[170] Id.

[171] INSTITUTO ECUATORIANO DE PROMOCIÓN DE EXPORTACIONES E INVERSIONES. 2012 "*Boletín de Comercio Exterior, Noviembre-Diciembre 2012*" en: http://www.proecuador.gob.ec/pubs/boletin-de-comercio-exterior-noviembre-diciembre-2012/ citado el 23/12/2013 11:50 AM

from the national government; the institution has sought to strengthen other existing markets as well.

From personal experience in this institution for a short period of time, I can say that the services offered by it, especially training services, have benefited many small and medium sized businesses thanks to the training and information that the institution offers for free.

However, all processes and improvements that companies should implement to compete, or get their products to international market, demands an investment of resources which Proecuador does not have the capacity to allocate. However, there are other State institutions responsible for this activity such as the National Finance Corporation (CFN) and the Ministry of Industry and Productivity (MIPRO).

2.1.14. Conclusions

Following an unprecedented economic crisis, Ecuador was forced to take drastic measures that would halt and reverse all economic problems; this is why dollarization was adopted in the country even before exploring any other alternatives. This measure brought political and ideological confrontation from different sectors. The main opposition claimed that this measure had no better guarantees and its adoption was an act of irresponsibility by the government, while those that supported dollarization saw it as the only way to establish economic stability in the country.

As claimed by those who supported dollarization, it has brought greater economic stability; however, a large part of the population lost a significant amount of value of their savings in *Sucres*, in addition to the other hundreds of people that had been previously affected by the banking crisis. Another aspect was the lack of preparation the country had put in place that resulted in a rise in inflation during the first year of dollarization.

The way in which dollarization was adopted in the country, and having applied drastic measures at the last minute, regardless of the negative long or medium term consequences effects, reflected poor planning. However, the urge for change justified somewhat the means in which it was implemented.

In this chapter, we can conclude that, in shifting to the US dollar, the Ecuadorian government did not take into account many aspects, or the necessary reforms, so that certain sectors would not be largely affected. During the 12 years analyzed in this study, we see the structure of the country's exports showed some changes; the importance of oil to the Ecuadorian economy became more evident and the country benefited from the rising prices of a barrel of oil. In addition, remittances by migrants helped keep the economy steady in the early years of dollarization.

Exports of traditional products lost some involvement while non-traditional products showed a completely different behavior, increasing in value and volume over the period; this is an obvious consequence of a change in production and approach by Ecuador to other activities and markets. Likewise, it denotes an improvement in the quality of domestic production.

Attempts to improve the country's export supply in the 1990s, although they were not as large as those undertaken in the next decade, were in some form the basis for the construction of a commercial policy for the insertion of Ecuador in the international market through exports. The arrival of the new Constitution established the legal bases for commercial matters; this included the Organic Code of Production, Trade, and Investment, that sought to change the productive matrix in Ecuador and substitute certain exports.

All these issues directly affected imports; thus, from 2009 on, imports were subject to restrictions and higher paying tariffs. According to points made by the government, replacing and declining exports broadens and strengthens the industry and exports of Ecuador; however, many of the restrictions are aimed at products that are not produced in the country due to the absence of factors such as technology or production capacity.

The institutions linked to exports since the 1970s were a private sector initiative; however, it was not until the 1990s that the government and private sector institutions worked together to promote and strengthen exports. Along with the legal changes of the last decade, the country also assumed the obligation to promote the export supply; all these efforts, both private and public, have had positive results, despite their short time of existence.

CHAPTER III

3.1.1. Introduction

Throughout this chapter, the perspectives of people and representatives of sectors related to exports and the management of more than a decade of dollarization will be analyzed. The aim of this chapter is to determine whether the dollarization of the Ecuadorian economy proved to be an advantage or disadvantage to exportation in Ecuador.

The second point discussed in this chapter, mentioned in previous chapters as well, is a comparison of the Ecuadorian economy before and after dollarization. This is done in order analyze the performance of exports considering the various changes and phenomena that affected them.

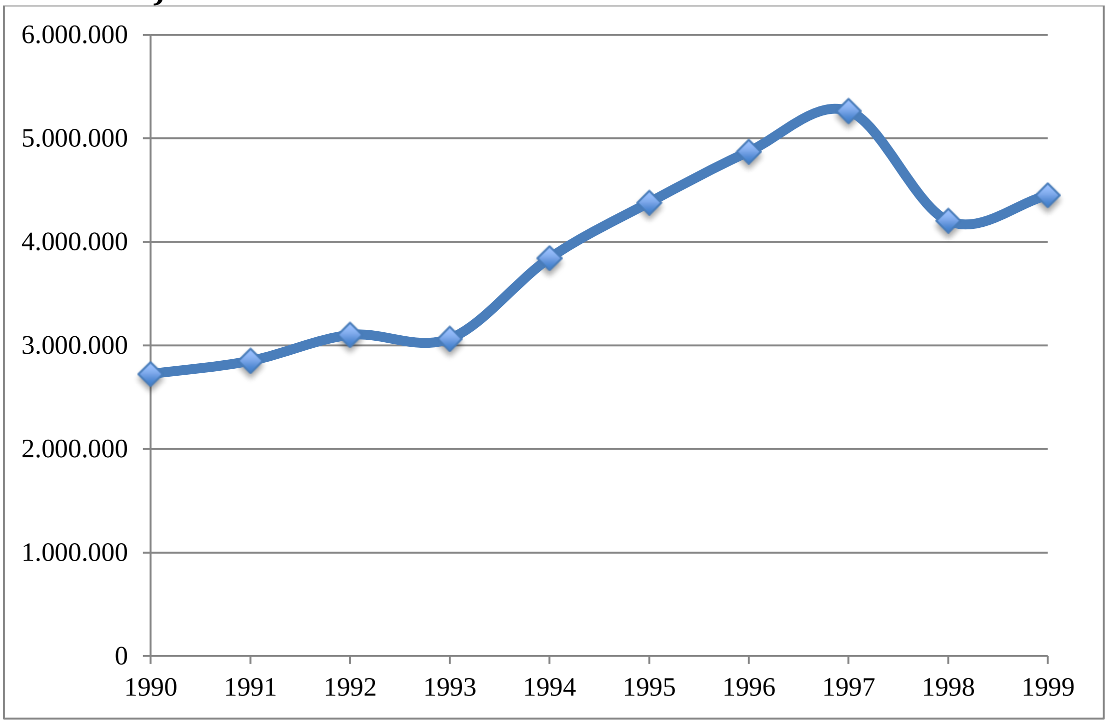
The final section of this chapter analyzes the impact dollarization has had on non-oil exports from Ecuador, as well as other observations and points that have emerged from this study.

3.1.2. Impact of dollarization on non-oil exports

The analysis of non-oil exports from Ecuador was divided into two periods; the first period analyzed was the nine years before dollarization (1990 to 1999). The second period analyzed was the twelve years after dollarization (2000 to 2012). It is important to note that from 2008 on there were considerable changes made in the economic model of Ecuador which considerably influenced exports and the foreign sector.

During the 1990s, the Ecuadorian government took many steps to modernize the country; but over the years, some factors, such as the war with Peru, climate events, and political and economic instability in the late 90s, affected the growth of the economy.

Graph No. 9 Export behavior of Ecuador 1990-1999 (thousands of US dollars)



Source: Central Bank of Ecuador
Prepared by: Author

The analysis of the first nine years shows that total exports of Ecuador had a growth of 63.39%. In 1998 we can see a considerable drop due to a strong economic crisis that the country was going through, and that slowed both imports and exports this year.

Oil exports recorded no major increases, and the price per barrel was stable and did not exceed $30 per barrel, even decreasing in some years.

According to a report by the Department of Economic Promotion of the Latin American Integration Association (ALADI), Ecuador recorded a lower growth rate (1.9%) compared to other countries in the region; the average growth was 3.2%. The report also notes the deterioration of the Ecuadorian economy in 1998, the year in which the trade balance showed a significant deficit. The following external and internal factors that contributed to said deficit were, "'El Niño' phenomenon, which reduced the export capacity of major sectors; the fall in oil prices, with the consequent drop in tax revenue;

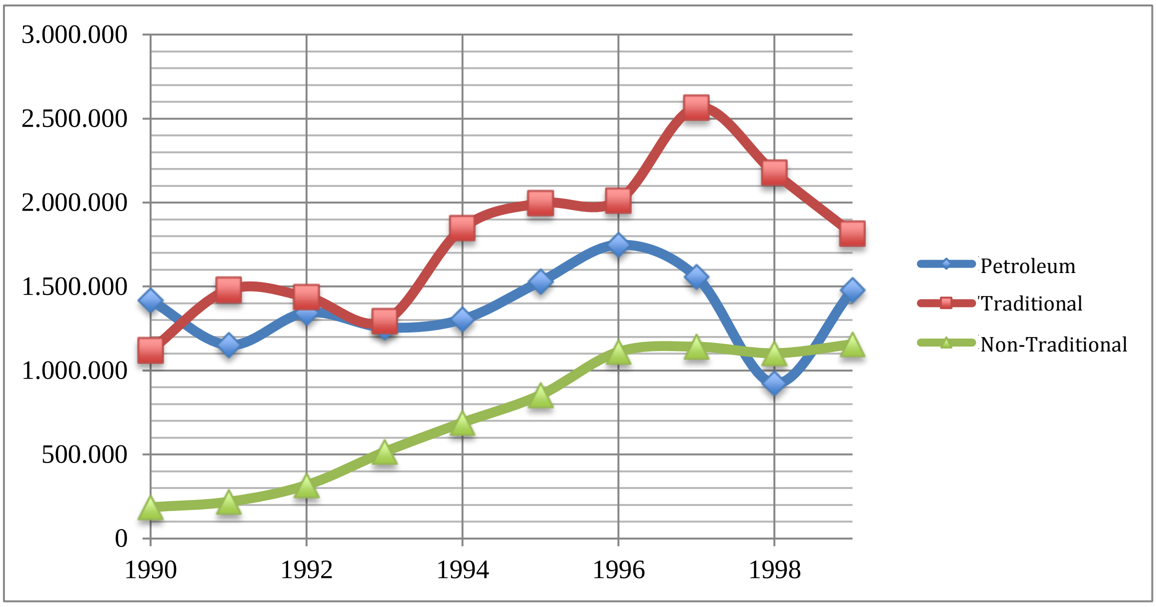
domestic and international financial crises; and the growing fiscal deficit."[172]

The importance of the foreign sector in the Ecuadorian economy recorded an increase from approximately 30.8% of GDP in 1990 to 40.8% of GDP in 1999. The share of exports of petroleum and petroleum products showed variation during the period under review since the early period in 1990 and 1991 these topped the list of exports, while in 1998 and 1999 the list of exported products was headed mainly by foodstuffs.[173]

[172] ALADI, DEPARTMENT OF ECONOMIC DEVELOPMENT 2001. *"Analysis of Ecuadorian trade in the nineties"* pg. 20

[173] ALADI, DEPARTMENT OF ECONOMIC DEVELOPMENT 2001. *"Analysis of Ecuadorian trade in the nineties"* pg. 21

Graph No. 10 Behavior of Petroleum exports, Traditional and Non-traditional 1990-1999 (Thousands of US Dollars)



Source: Central Bank of Ecuador
Prepared by: Author

In the analyzed years, we see that exports of the products analyzed were the most important; however, throughout the period, there was a growth in exports of non-traditional products, even in years when it was negative for oil and traditional product exports.

The report from the ALADI noted that increased exports of manufactured goods did not represent higher figures on a global level; trade of processed products with Colombia represented approximately 30.4% of bilateral trade, these products were mainly composed of drugs, vehicles, and processed or canned foods.

Although non-traditional exports and manufactures increased substantially, Ecuador continued to have a negative trade balance in manufactures; 80% of imports by Ecuador were non-traditional and/or manufactures. However, in this period, Ecuador stood out as an exporter of food products.

Concerning exports, the Department of Economic Development of the ALADI classified 15 tariff items that had higher output abroad from Ecuador, as shown in the following table.

Chart No. 1 Principal Exported Products at the end of 1990 (Thousands of US Dollars)

ITEM	DESCRIPTION	VALUE	% of participation
08030000	BANANAS, INCLUDING PLANTAINS, FRESH OR DRIED	471,078	17.41
03061300	SHRIMPS AND PRAWNS	340,288	12.57
09011190	UNROASTED COFFEE, DECAFFEINATED (OTHERS)	104,152	3.85
18010010	RAW COCOA BEANS	74,617	2.76
18010010	COCOA PASTA - NON-DESEEDED	23,085	0.85
18040000	BUTTER, FAT, AND COCOA OIL	22,883	0.85
03034300	SKIPJACK TUNA (FROZEN)	20,803	0.77
16041410	TUNA	14,505	0.54
16041310	SARDINES	14,194	0.52
09012110	COFFEE - ROASTED, NOT DECAFFEINATED	13,803	0.51
060390000	FLOWERS AND BUDS (OTHERS)	13,598	0.50
03026900	FISH - FRESH OR CHILLED	12,883	0.48
44092090	WOOD CONTINUOUSLY SHAPED (OTHERS)	11,233	0.42
	Total Non-oil	1,137,122	42.01
	Total exports (including oil)	2,706,499	100

Source: General Secretariat of the ALADI, information provided by member countries.
Prepared by: Author

This year, we see a marked preponderance of exports of crude oil, followed by banana exports. There was an increase in oil prices due to the Gulf War conflict; these 15 products accounted for 94.1% of total exports. There was almost no participation of manufactured goods and other products that make up non-traditional exports.

Chart No. 2 Principal Products Exported at the end of 1999 (Thousands of US Dollars)

ITEM	DESCRIPTION	VALUE	% of participation
08030012	BANANAS, INCLUDING PLANTAINS, FRESH (TYPE "CAVENDISH VALERY")	940,097	21.12
0306139'	SHRIMP	597,304	13.42
16042000	OTHER PREPARATIONS OF FISH	124,953	2.81
06031040	ROSES	124,023	2.79
16041400	TUNAS, SKIPJACK AND YELLOWFIN	106,180	2.39
18010010	RAW COCOA BEANS	63,931	1.44
09011190	UNROASTED COFFEE, DECAFFEINATED (OTHERS)	56,897	1.28
20098012	PASSION FRUIT JUICE	42,356	0.95
16041300	SARDINES AND SPRATS	24,322	0.55
18040000	BUTTER, FAT, AND COCOA OIL	21,585	0.48
15111000	CRUDE PALM OIL	21,346	0.48
21011100	COFFEE EXTRACTS, ESSENCES, AND CONCENTRATES	21,012	0.47
	Total Non-oil	2,144,006	48.17
	Total exports (including oil)	4,451,083	100

Source: General Secretariat of the ALADI, information provided by member countries.
Prepared by: Author

By 1999, the situation changed since the 15 main exports represented 81.4% of total exports of the country, 12.7% less than in 1990. Major exports also included new items such as palm oil and passion fruit juice; roses and tuna also increased. All this denotes a greater share of exports of nontraditional products; that despite adverse situations, have succeeded in opening foreign markets.[174]

Through the results of the analysis of this period we can say that in the 1990s, Ecuador's exports continued to be leveraged by oil; although there were price increases in oil, traditional exports were the most dominant in most of the period, above all banana exports despite being affected by climatic problems and changes in international prices. We can also see an increase in non-traditional exports in the late 90s, and throughout the period, even though most of these products are food based, there was a higher degree of manufacturing based exports.

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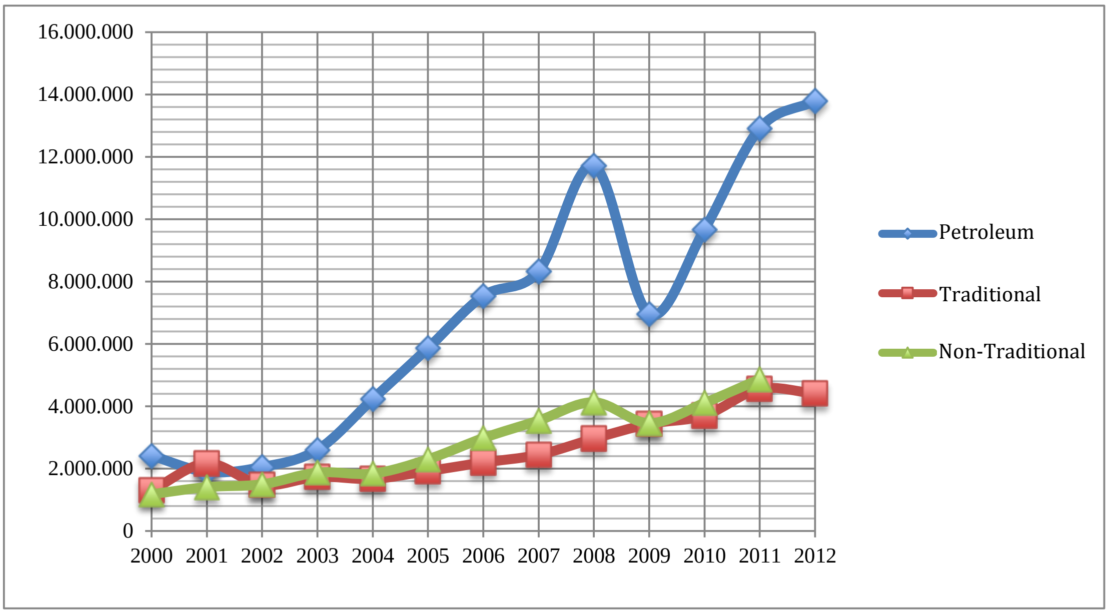
[174] ALADI, DEPARTMENT OF ECONOMIC DEVELOPMENT 2001. *"Analysis of Ecuadorian trade in the nineties"* pg. 25

For the period 2000-2010, with dollarization in full force, Ecuadorian exports showed an increase of 256.43%; oil exports also showed a growth of 300.02%, mainly as a result of the rapid increase in oil prices caused by the United States conflicts in Afghanistan and Iraq.

Exports of traditional products in 2000-2010 also showed an increase of 183.80%, as the growth of these was determined by the increased participation of products such as coffee, cocoa, and tuna (discussed in the previous chapter), as well as greater added value and expertise of products like bananas, which continued to maintain its place as the principal traditional major export of Ecuador. Finally, exports of non-traditional products grew the most with 247.48%; according to the analysis previously presented, this growth is attributed to the participation of new products within this classification, mainly food products, processed and unprocessed, as well as metal manufactures.

Between 2010 and 2012, exports continued to increase, showing an increase in value of 38.73%. Also during this period, non-traditional exports grew more than traditional products.

Graph No. 11 Behavior of Petroleum exports, Traditional and Non-traditional 2000-2012 (thousands of US dollars)



Source: Central Bank of Ecuador
Prepared by: Author

In the period under review, oil exports reached record highs and only showed a depreciation in 2009 as a result of the global financial crisis. According to statistical data of the Ministry of Foreign Trade, export growth is reflected in the volume exported which helps to more clearly identify the increase in non-oil exports, as opposed to assuming growth was only a result of rising prices.

Another aspect was an increase in traditional and nontraditional exports, as well as increased exportation from 1,387 items in the year 2000 to 2,960 items in 2010; likewise, the registered number of exporters showed a significant rise of 3,504 to 6,517 in the same time period.[175]

[175]CORPEI. 2010 "*Diversificación de las exportaciones ecuatorianas*" en: http://www.corpei.org/index.php?option=com_k2&view=item&layout=item&id=184&Itemid=187 citado el 04/03/2014

Chart No. 3 Leading products exported by the end of 2012 (Thousands of US Dollars)

NON-OIL EXPORTS FROM ECUADOR THOUSANDS OF US DOLLARS 2012				
#	Subitem	PRODUCT	2012	Particip. % 2012
1	0803.00.12.00	BANANAS, INCLUDING PLANTAINS, FRESH (TYPE "CAVENDISH VALERY")	2,005,164	19.85%
2	0306.13.91.00	OTHER FROZEN SHRIMP	1,252,351	12.40%
3	1604.14.10.00	CANNED TUNA	829,554	8.21%
4	0603.11.00.00	FRESH CUT ROSES	546,737	5.41%
5	7108.12.00.00	RAW GOLD - NOT USED FOR MONEY	387,514	3.84%
6	1801.00.19.00	RAW COCOA BEANS - NOT USED FOR CULTIVATION	345,766	3.42%
7	1511.10.00.00	CRUDE PALM OIL	212,423	2.10%
8	1604.20.00.00	OTHER PREPERATIONS OF FISH	210,202	2.08%
9	2101.11.00.00	COFFEE EXTRACTS, ESSENCES, AND CONCENTRATES	184,830	1.83%
10	2301.20.11.00	FISH MEAL WITH 2%+ FAT	114,561	1.13%
11	8704.31.10.90	OTHER SPARK STARTED VEHICLES, WEIGHT LESS THAN OR EQUAL TO 4,537 T, NOT COVERED ELSEWHERE	109,891	1.09%
12	8704.21.10.90	OTHER DIESEL VEHICLES, WEIGHT LESS THAN OR EQUAL TO 4,537 T, NOT COVERED ELSEWHERE	108,019	1.07%
13	7321.11.19.00	OTHER GAS STOVES	104,665	1.04%
14	2009.80.12.00	PASSION FRUIT JUICE	102,885	1.02%
15	1511.90.00.00	OTHER PALM OILS AND ITS FRACTIONS THEREOF	88,488	0.88%
16	8703.23.90.90	OTHER GAS VEHICLES, DISPLACEMENT BETWEEN 1500 CM3 AND 3000 CM3, NOT COVERED ELSEWHERE	86,722	0.86%
17	8703.22.90.90	OTHER VEHICLES, DISPLACEMENT BETWEEN 1500 CM3 AND 3000 CM3, NOT COVERED ELSEWHERE	84,484	0.84%
18	4407.22.00.00	SAWN OR CHIPPED LENGTHWISE - WOODS OF TROPICAL NUT, IMBUIA, AND BALSA	76,575	0.76%
19	0901.11.90.00	UNROASTED COFFEE, DECAFFEINATED (OTHERS)	74,830	0.74%
20	0603.19.10.00	GYPSOPHILA (RAIN, ILLUSION) (GYPSOPHILA PANICULATA L) FRESH CUT	74,394	0.74%
OTHER PRODUCTS			3,101,202	30.70%
Total			10,101,257	100.00%

Source: Central Bank of Ecuador
Prepared by: Directorate of Commercial Intelligence and Investment PROECUADOR

As shown in the above table, for 2012, there are new items among the largest non-oil exports, such as passion fruit juice, fish meal, palm oil and sawn timber. Moreover, in this decade, products from mining gained greater participation and importance, such as gold and bronze. Also we see a greater share of manufactured goods; in this case, vehicles. Manufactured goods accounted for a major share of non-oil exports; not only in the 1990s, but in the new millennium as well.

Comparing the two periods, each based on the analysis done in the previous chapters, we see clearly that during the first period (1990-1999) the country went through a series of circumstances which obviously affected the production and exportation sectors, specifically economic instability and various financial crises. Moreover, in the early 90s, there was no greater government intervention or policies with respect to exports; most were directed towards the importation sector.

During the early years of the new millennium, there were no new changes to the exporting sector; even while the price of oil constantly increased and the influx of money as a result of remittances from migrants was needed to keep the dollar over the years. Economist Rafael Correa Delgado argues that without a constant inflow of foreign exchange it would be impossible to maintain a fixed exchange rate system; and even more so, dollarization. President Correa uses the examples of Panama, with its principal and constant inflow of foreign currency generated by the Canal; El Salvador, with a large influx of migrant remittances; and finally Ecuador, which has oil and foreign exchange revenues. The need for the generation of remittances can be seen in the failure of Argentina's convertibility, which was caused by more than bad management decisions, but also a lack of revenue generators, as previously mentioned.[176]

Outside the oil sector and income from remittances an increase in traditional and non-traditional exports is evident. Although this study focuses on analyzing the foreign sector, it is also important to pay attention to the domestic sector of the economy. As mentioned in the first chapter of this study, the arrival of dollarization brought stability of interest rates, citing World Bank publication, *Crisis and dollarization in Ecuador*, "dollarization managed to stabilize expectations of economic operators, as reflected in the decline in interest rates, and generated a return of capital; and banks recorded an increase in their deposits."[177]

The improvement in interest rates and consumption is manifested in the growth of private consumption in Ecuador. With stability and better rates, added to increased liquidity from the oil boom, private consumption has shown a

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[176] CORREA, R. 2009 *"Ecuador: Banana Republic to Non Republic"* pg.96

[177] BECKERMAN P. SOLIMANO A. 2002. *"Crisis and Dollarization in Ecuador"* pg. 18

significant increase after more than a decade of dollarization, especially in recent years. It is also worth mentioning that public spending has shown a significant increase, insomuch that the public sector is one of the main actors in the economy.

According to the magazine, *Lideres*, banks and the financial sector in the country have increased lending to double-digit annual rates which translates to a relaxation of the financial sector itself. The ease of getting credit is reflected in increased profits for much of private sector.[178]

It a fact that still remains in order for a company to export or sell their surplus production in the international market favorable conditions and good results in the local market are required; the aforementioned improvement in domestic consumption serves as leverage for companies to leave or expand to other markets. Likewise, an improvement in the economy is reflected in the investment of capital. Although it is not clear which investments are directed towards the internationalization of production, it is a reflection of the industry looking to grow or meet increased demand.

The increase of the actors involved in the export sector was mentioned; many of these are companies that initially only did business in the domestic market.

It is also necessary to examine whether the inability to manage the exchange rate negatively affected Ecuadorian exports. During the 1980s, the government of Ecuador sought to strengthen exports through adjustments in the exchange rate; but, this had negative results as exports had a lower rate than in the 1970s when growth was achieved through a fixed exchange rate. A similar case occurred in the early years of the 1990s; when in 1992, the Sucre was devalued, and by the end of the period exports showed a loss again by one percentage.[179]

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[178] REVISTA LIDERES 2012 "*Consumption and Growth*" in: http://www.revistalideres.ec/tendencias/consumo-crecimiento_0_710928952.html accessed on 03/10/2014

[179] BARRERA M. 2001 *"Status and Performance of Ecuadorian SMEs in the International Market"* pg. 6

From these examples on the application of a variable shift, and the analysis in the previous decade to dollarization, which largely held a system of pegged exchange or bands, we can confirm that having or not having the ability to manage monetary policy, and fix the exchange rate, did not significantly influence Ecuadorian exports during the existence of the Sucre. This can also be confirmed by the analysis of foreign trade of each year performed in this study; this leads to the conclusion that the behavior of both oil and non-oil Ecuadorian exports was strongly influenced by factors related to productivity and international prices, since the most important Ecuadorian exports were raw materials or products of agricultural origin, despite these exports being affected by external factors such as climate and domestic economic problems.

3.1.3. Perspectives and opinions concerning dollarization and foreign trade in Ecuador

After analyzing the statistical and historical information, we can see how dollarization has influenced non-oil exports; thus, it is important to analyze the sectors that have a direct connection with this issue. Even though the information presented previously gives a fairly accurate view on the subject, as well as the consequences of dollarization on the export sector, the best way to understand the impact this had on the economy is to interview the parties that directly or indirectly do business first hand in commercial activities in the country.

Economist Andrés Robalino, professor at the University of Azuay and vice president of the Chamber of Industries of the city of Cuenca, gave his opinion on the impact of dollarization on the economy; he said:[180]

"Dollarization was more positive than negative. One of its main purposes was to increase the consumption capacity of the population which has a positive effect on the consumption of both domestic as well as imported products, which then

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180 ROBALINO, A. ECON. *"Opinión sobre el impacto que ha tenido la dolarización en los principales sectores productivos y exportadores del país".* Entrevista realizada por: Francisco Martínez. 07/03/2014

generates growth; because of this, companies can now designate part of their production to exportation. To analyze this, a deeper assessment of the situation is required seeing as a superficial examination of dollarization seems to result in negative sentiments towards this idea as the country loses its ability to manage monetary policy."

Mr. Robalino explains, ". . .the dollar is a strong currency with depreciations and appreciations, but this does not depend on the country. Countries like Peru and Colombia, two of Ecuador's major trading partners, have had more depreciations than appreciations with their currencies. So, when analyzing exports, it is obvious that our products are much more expensive than these countryies' products; however, to reduce the loss of competitiveness in price, Ecuadorian products have been characterized as 'high quality,' particularly products referred to as traditional, such as coffee, cocoa, shrimp, and roses, among others. By marketing the various goods differently, demand for Ecuadorian products are increased in places like Europe and the United States – Ecuador's main trading partner. . ."

Mr. Robalino explained that, "the problem with dollarization comes from the lack of open market. . ." In his opinion, "[t]he payment of duties that exporters must give has a greater negative effect than the loss of competitiveness through the exchange rate, considering the exchange rate can be negotiated, especially when devaluations are not very big. However, negotiating a tariff is a more complicated issue. . .The issue of dollarization should go hand in hand with the issue of opening markets, particularly with major trading partners like the United States and the European Union. Traditional products should be sold to the US and the EU and industrial products should be exported to Central America."

According to Mr. Robalino, "to better understand the impact of dollarization, we should not only study the domestic market but also the foreign market, in order to figure out how we can reduce the impact of the loss of the exchange rate. The best way to accomplish this is to open markets and reduce tariffs, since very high tariffs can harm the industry more than the loss of control over the management of monetary policy."

When Mr. Robalino was asked if the productive sector was benefited by dollarization in the country, he responded, “Yes. [Dollarization] has resulted in improved credit conditions, which in turn potentiates domestic consumption by improving production capacity, which in turn leads to companies expanding their market internationally in increasingly higher percentages. Even with dollarization, companies acquired capital assets.”

Mr. Robalino went on to explain, “For me, dollarization has been a solution for the economic disruption that existed in the past. Before, the Central Bank printed bank notes as if they were paper flyers; whereas now, someone who is not within the country controls us.”

With regard to the last period, and the changes promoted by the government, specifically the importance of changing the country’s productive matrix, Economist Andrés Robalino believes that, “there are two fundamental pillars to achieve this: the first is technical training in specific areas of the industry, because without technical training industry cannot grow; the second pillar is technology. If we are to have a more viable industry, which brings revenue into the country, which is essential to maintain dollarization, then technology is important to generate quality goods that are competitive abroad.

Mr. Robalino goes on to point out that, “there are technical training projects such as Yachay;[181] however, these are long term projects and results are expected in about 10 years, likewise with the issue of technology. Nevertheless, without these two pillars, we cannot change the productive matrix. Furthermore, these are not changes in form, rather they run deeper. When these changes are made, we must also make changes in the opening of markets or exemptions from taxes…”

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[181] City planned for technological innovation and knowledge-intensive business; where the best ideas, human talent, and infrastructure are combined to generate scientific applications on a global level, which are necessary to achieve “the good life.” Accessed on http://www.yachay.gob.ec/yachay-la-ciudad-del-conocimiento/ on 04/13/2014

With regard to measures restricting imports that the government has taken in the last five years, the vice president of the Chamber of Industry of Cuenca did not indicate that this is the result of opposing positions that exist within the relevant ministries. He spoke of changing the productive matrix of the country by restricting imports and manufacturing more products domestically through investment in technical and technological training. He also mentions that Ecuador should promote, or not hinder, the importation of raw materials:

"... Finally, one cannot deny that there has been progress in foreign trade; however, there are still some problems caused by the high number formalities concerning both to imports and to exports, and decisions that go against industrial development. All decisions on policy should be unanimously decided, or go towards a higher purpose. . ."

Under the perspective of the business sector, it seems that many of the companies have benefited from dollarization, and not only companies engaged in commercial and service activities within the country, but also companies that barely exported their products; even exporters of agricultural products also obtained certain benefits or advantages from this change.

Another view that was taken into consideration was that of officials in the Ecuadorian Federation of Exporters, one of the oldest organizations related to foreign trade in the country. Citing a review from its Executive President, Felipe Ribadeneira, in the publication, *Successes and Challenges of Foreign Trade,*[182] he states, "Since 2000, after the dollarization of the Ecuadorian economy, the country's export sector has become more important, and this has taken on the challenge of becoming more competitive, to export more, and to export better. In 2012, non-oil exports of the country exceeded historical amounts; this, with the joint efforts of employers and employees, has positioned the Ecuadorian export supply in more than 150 countries."

[182] RIBADENEIRA F. 2013 *"Successes and Challenges of Foreign Trade of Ecuador"* pg. 4

Today, the Executive Chairman of the Federation of Exporters explains that it is necessary to develop the country's competitiveness in the productive sectors, investment, and exports, since exportation plays a key role in the insertion of Ecuador in the global economy.

Mr. Ribadeneira explains, "The economic growth based on export promotion has proven to be an efficient strategy to achieve greater development, improve capacity and production efficiency, technology implementation, resource revenues (currency) to lighten the load of oil and public debt in the balance of payments of the country, and creating jobs for the population."

Both interviewees agree that the effect of the expansion of consumption and domestic production benefits or promotes export activity and also has a reverse effect; that is, exports bring more growth to the domestic sector of the economy, above all increased production and employment.

Rivadeneira says that it is important to have an agenda for the development of the export sector, this government has a very important role because it must take measures to improve the coordination of the parties involved and create purely commercial institutions, an openness to new markets, financial promotion to medium and large enterprise, fiscal measures to compensate or relieve businesses of excessive taxation, and finally enhance logistics of customs procedures. However, this cannot take place without the participation of the private sector and related agencies.

3.1.4. Conclusions

In this chapter we can clearly see the impact that dollarization has had on non-oil exports; based on the analysis of statistics and figures. We also helped identify whether this had a direct impact on the country's exports through an increase in value or volume. We observed that there was a significant increase in all exports of the country, especially the growth of exports of non-traditional products, suggesting that new products, as well as new companies, became part of the exportation sector.

Although this situation began in the late 1990, it wasn't until the following decade that Ecuador experienced significant growth, perhaps there could have been even more growth at an early date if it wasn't for the crises in 1998 and 1999; but, from 2002 on the export sector took off. The crisis of 2008 certainly delayed the growth of the foreign sector, but by 2010 the country's exports again had positive results, even achieving record results over the following two years.

In the analysis of each decade we observed that exports were mostly affected by external factors such as international financial crises or changes in the price of certain goods or commodities; these situations were repeated during both periods. However, from 2000 on, and with dollarization in place, external shocks did not do much damage to the domestic economy; the opposite of what happened in previous decades with rising inflation and unemployment. This was mainly due to dollarization bringing greater economic stability and debt capacity through lower interest rates; this is what has enabled many sectors to cope with external shocks, either by routing activity towards other activities or through capital investments.

Increased consumption, as a result of improved interest rates and borrowing capacity, as well as an inflow of remittances of migrants who for several years was the second input of the country's largest foreign exchange income after oil exports, led to a boom during much of the second period analyzed.

Opinions from the sectors and actors involved agree with what is stated in the analysis; that is, they agree that dollarization offered stability to the deteriorating economy, and with no doubt, because of the importance of foreign exchange generation, the country's export sector happened to be one of the most important to the economy. Moreover, some expressed that greater policy coordination is necessary since many of the measures used to promote exports are frustrated by others who seek to restrict the imports and certain activities that are directly related to the sector.

In conclusion, opinions agree that the issue of exports is more influenced by product competitiveness abroad, and that price is a variable of consideration for competition. In the case of Ecuadorian products, the primary factor or variable for effective competitiveness has been the quality and differentiation of products; this is also a fact that has existed long before the country adopted dollarization.

CONCLUSIONS AND RECOMMENDATIONS

Throughout this study we have analyzed the evolution of the economy and the foreign sector of Ecuador in the last 22 years. Dealing with an economic crisis unprecedented in the late 1990s, in 2000, the government of Ecuador was forced to take drastic measures that would halt and reverse all the problems; before trying other alternatives, dollarization was adopted in the country. This measure had, and even today has, many detractors who argued that it has brought nothing but new problems; however, supporters say this decision was the best alternative to end many of the problems in the country.

There is no doubt that the loss of the *Sucre* left Ecuador without the ability to manage its own monetary policy and exchange rate, which in theory is an important factor in order to internationalize products abroad; however, this analysis has shown that exports have had significant increases every year before, and especially after the dollarization of the economy. Traditional and non-traditional exports, that were the subject of this analysis, likewise have grown considerably.

It is absurd to consider that dollarization somehow slowed sales of Ecuadorian products abroad, despite being in a geographical area whose main competitors, notably Colombia and Peru, have some degree of similarity in their products and maintain better conditions for negotiations, of these a currency of lesser value to the dollar. However, Ecuador has significantly improved its non-oil exports and has managed to acquire a degree of differentiation in its products thanks to the conditions and quality of its exports.

The main factors that slowed the growth of exports in the country were in most cases a result of exogenous factors; the exportable supply of Ecuador is composed mainly of raw materials which are more likely to be affected by climatic factors, or changes in international prices of goods, such as oil. The main problem of the Ecuadorian economy is a lack of specialization and no added value in production; to this we can add the political and economic instability in the 1990s and the beginning of the new decade that certainly had an impact on the production sector.

No more than six years ago, the only institutions whose central axis was the promotion and strengthening of trade and protection of the interests of exporters in the country was the Ecuadorian Federation of Exporters or FEDEXPORT and the CORPEI. From 2009 until today, this issue has begun to be considered as the backbone of the economy; institutions have emerged such as the Ministry of Foreign Trade, Pro Ecuador, and new Code of Production and Investments which seeks to bring about change in the matrix production of the country and bring production to new markets. However, their results will not be reflected in the short term but rather in the long term, since changes like these involve changing the production model of the country and developing from scratch new productive sectors.

It is very difficult to deny that dollarization benefited both the domestic sector and the foreign sector, as it has generated greater borrowing capacity and stability in interest rates, which opened new opportunities for producers and traders in the country. Although imports increased sharply as a result of dollarization, to some extent this also generated a higher degree of competitiveness for companies working in the domestic market which can compete directly with imported products. Investment in capital goods and technology from Ecuadorian industrialists is largely the result of this phenomenon; improving supply and increasing domestic consumption is soon to cross borders as producers are also looking for new markets for their products. Thus, we can conclude that the impact of dollarization in non-oil exports has been more positive than negative, based on the analysis of two decades of foreign trade and the opinions of experts, as well as the analysis of the news, reports, papers on the subject, and the events of recent years.

Ecuador has had significantly fortunate events such as foreign exchange inflows from remittances and historical oil prices which have helped keep the economy afloat and boost growth, as well as maintaining dollarization; but, the country cannot continue to depend on the way things are currently. It is paramount that

Ecuadorian production improves its competitiveness and capacity in the coming years and that government decisions aid in this goal. Production requires greater specialization and incorporation of added value to its products; because, as this paper shows, the main feature or competitive advantage of Ecuadorian production is its quality and unique features which proves once again that the exchange rate has never been a determining factor for Ecuador’s exports.

Ecuador needs better management of statistical information in the country since this is not often consistent or its access is limited; moreover, work for the development of industry and trade should be done by both the public and private sectors. Nowadays, many decisions, for example the restriction of imports, end up affecting directly or indirectly the production sector; as some companies do not have the capacity to produce one hundred percent of their assets yet. There needs to be better planning before implementing new tax measures. Taxes on capital outflows also affect the productive sector in Ecuador since not all raw materials or inputs needed to produce the goods exist in the country; the central government and relevant agencies must always be attentive to the needs of the main productive sectors because if they have adequate conditions in the years to come they can improve their participation in non-oil exports.

Perhaps in the future the country can take the next step out of dollarization; however, we cannot guarantee what forsee or when it will happen. For the time being, based on the results of the last 14 years of dollarization, we can ensure that the model has been beneficial and positive for the country’s development due to the significant increase in consumption, the importation sector, which is one of the largest employers in the country, the external sector of the economy of Ecuador referring to exports and increased export supply, as well as direct and indirect participants in this sector. Ecuador needs to search for new business partners and establish institutions and laws that seek to improve conditions for improved importation. As mentioned above, the effects of these changes can only be viewed in the long term, and in this paper we have sought to identify the effects of dollarization on non-oil exports in the foreign sector of the economy.

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