

PJ-ABG-207

**TRADE REFORM IN ECUADOR:
A Strategy for Employment and Growth**

August, 1990



Sigma One Corporation

RESEARCH TRIANGLE OFFICE:

**Sigma One Corporation
Post Office Box 12836
Research Triangle Park,
North Carolina 27709-2836**

**Phone: (919) 361-9800
FAX: (919) 361-5858
Telex 490-000-8487 CGI UI**

PJ-ABG-208
15A 68434

**Trade Reform in Ecuador:
A Strategy for Employment and Growth**

By

David L. Franklin

**Prepared for:
The United States Agency for International Development
Mission to Ecuador
Contract 518-0000-C-9182-00**

August, 1990

Sigma One Corporation

TRADE REFORM IN ECUADOR: A Strategy for Employment and Growth

TABLE OF CONTENTS

<u>Section</u>	
1.0	INTRODUCTION AND BACKGROUND
1.1	Purpose for this Report 3
1.2	Gains from Trade 5
1.3	A Retrospective Overview of Trade Policy in Ecuador 6
1.4	Overview of the Current Macroeconomic Policy Strategy 10
2.0	ANALYTICAL FRAMEWORK
2.1	A Measure of the Bias in Trade Policy 16
2.2	Indirect Effects of Trade Policies 17
2.3	Effective Protection and Factor Market Intervention 19
2.4	Non Price Factors that affect Trade Performance 21
3.0	THE STRUCTURE OF INCENTIVES AND TRADE PERFORMANCE
3.1	Oil Exports and Dutch Disease 22
3.2	Trade Bias 26
3.3	Effective Protection 27
3.4	Real Exchange Rate and Intersectoral Incentives 31
3.5	Operational Problems in Exporting from Ecuador 39
4.0	POTENTIAL EFFECTS FROM TRADE LIBERALIZATION
4.1	Employment and Output Effects of Trade Reform 44
4.2	Liberalization Experiences of Other Latin American Countries 48
4.2.1	The Chilean Experience 49
4.2.2	The Mexican Experience 51
5.0	A PROPOSED STRATEGY FOR INCREASED TRADE, INCOMES AND EMPLOYMENT
5.1	Issues that will affect the Success of Trade Liberalization 53
5.2	Elements of a Trade for Development Strategy 60
	BIBLIOGRAPHY 64

LIST OF FIGURES

Figure.

1	Trade Performance in Ecuador	23
2	Current Account Balance Relative to GDP	24
3	Total and Non-oil exports	25
4	Indices of Openness	25
5	Domestic/International Terms of Trade	27
6	Effective Protection Indices: Base 1975	28
7	Real Manufacturing GDP Indices, (1965-88)	30
8	Indices of Sectoral GDP (1965-88)	31
9	Real Exchange Rate Index	32
10	Relative Prices of Tradeables	33
11	Agricultural Relative Prices	34
12	Real Exchange Rate, (Jan 88-Mar 90)	38

1.0 INTRODUCTION AND BACKGROUND

Ecuador has an economy that is intrinsically open to international markets. Yet, for three and a half decades, successive economic authorities have attempted to control the Ecuadorean economy through a development strategy that has been based on the expansion of domestic demand and a productive system oriented primarily to Ecuador's internal market. This development strategy sought to develop the domestic markets and to provide for domestic consumption. It was fed with the rents extracted from the discovery and exploitation of oil resources and the international borrowing capacity that oil gave Ecuador. The development strategy and the allocation of the resources coming from abroad required (or engendered) a high degree of public involvement in the economy. The petroleum export boom, which began in the mid 70s, provided tremendous growth in international trade, because the proceeds of petroleum exports and the international debt were used to finance a rapid rate of import growth. Paradoxically, the oil exporting bonanza allowed the pursuit of an inward-oriented development strategy for the rest of the economy. The economic boom of the mid 70s ended with a crisis in the 1981-82 period. The crisis was caused by a severe fall in the oil price and a curtailment of Ecuador's ability to borrow in international markets.

The decade of the 80s was one of halting and somewhat erratic adjustment of the economy as successive administrations tried partial and gradual policy changes to bring Ecuador's economy in line with the realities of world markets and its ability to generate income for its population. The strategy of the 80s, however, was one in which the state's intervention in product and factor markets persisted. Most of the economic changes that occurred during the 80's, were changes in degree rather than essential restructuring of the economic policy regimes. The notable exception to this gradual and piecemeal approach to policy reform has been the process of devaluation of the Ecuadorean currency for the purpose of promoting export competitiveness. Even this policy has been more a matter of degree than a substantial change in regime, in so far as the exchange rate mechanisms continue to be subject to direct and indirect intervention by the government authorities.

The maintenance of policy regime which has to date been primarily oriented inwardly

to domestic markets and a highly interventionist institutional apparatus has been directed at the development of a domestic industrial capacity. The rationale for the policy regime has been an import substitution industrialization strategy in accordance with attempts at economic integration under the Andean Pact. Today, this policy regime and institutional apparatus serves to impede the response of Ecuador to prevailing world market forces. After 35 years of pervasive and wide spread protection through a wide array of economic policy and administrative mechanisms, the industrial sector has failed to become an engine of growth for the Ecuadorean economy. The industrial sector has stagnated in its ability to provide employment to a rapidly growing population, and it provides goods for domestic consumption at a high cost to Ecuadorean consumers. This occurs in spite of a high degree of direct and indirect subsidization that the sector has enjoyed over the last 35 years. Ironically, the very same policies that sought to develop the industrial sector as an engine of growth are today the policies that impede many firms within the industrial sector of Ecuador from increasing their production through the use of the country's abundant natural and human resources.

The present government has announced a set of important reforms in a number of policy areas, including trade policy. These reforms, when implemented, will tend to place Ecuador in a more competitive position in world markets. Reforms have been announced in trade policy, fiscal policy and financial markets, these policies and the hoped for eventual success of a gradual strategy for stabilizing the economy are recognized as a courageous attempts by the political and economic authorities to restructure the economy, away from an inward orientation, towards the benefits of operating in today's global markets. The overall strategy of policy reform is ambitious and generally consistent. It is being implemented within a gradual approach, however.

1.1 Purpose of this Report

The purpose of this report is to assist the Mission to Ecuador of the Agency for International Development in its support of an outward oriented development strategy for Ecuador. This study seeks to complement and build on important findings on the structure of economic incentives that have been undertaken by Sigma One Corporation, under the

Agricultural Sector Reorientation Project of USAID/Ecuador, in cooperation with the Ministry of Agriculture and the Institute for Agricultural Development Strategies, as well as a number of World Bank sponsored studies and initiatives, which seek to support the present government's economic policy strategy.

Specifically, this reports deals with an assessment of the policy framework that has affected the intersectoral structure of incentives and therefore, the allocation of resources across the major productive sectors of the economy. The purpose is to identify key elements of the structure of incentives which can support and enhance the government's newly stated outward oriented growth and employment strategy. The structure for the analysis is within the framework of a consistent macroeconomic policy strategy as it relates to the performance of the productive sectors, resource utilization, (particularly the employment of labor) and the determination of household incomes. To complement the assessment of these key elements in the structure of economic incentives and their role in supporting an outward oriented growth strategy, the report reviews a number of institutional and administrative factors that have evolved as a part of past governments' attempts to control the path of economic development for Ecuador. The intent in reviewing administrative and institutional factors is to identify potential rigidities which might impede the economy's ability to respond to the evolving macroeconomic environment, and thus, impede the success of an outward oriented strategy.

The report is organized as follows: This section presents a brief discussion on why Ecuador stands to gain from policies that recognize its intrinsic openness and allow the economy to exploit its productive capabilities in the context of international competitiveness. The next section provides a brief history of the policies that have affected the structure of incentives, particularly those regarding international trade; the final section of this chapter, presents an overview of the current policy proposals for trade policy reform. Chapter 2 presents an analytical framework for making quantitative and qualitative assessments of the economic incentives that affect trade and export performance for Ecuador. Chapter 3 presents the results of the analysis and concludes with an assessment of the current structure of incentives and the likely impacts on the structure of incentives. Chapter 4 presents some scenarios on the potential response of the Ecuadorian economy to the proposed reforms.

The report concludes with recommendations for a strategy for policy reforms needed to promote growth and employment generation. The strategy deals with certain key elements of the structure of economic incentives such as exchange rate regimes, tariff policies, other government interventions in trade, the degree of flexibility in important domestic markets, and the requirement for flexibility in financial and labor markets. The strategy is developed in light of recent experiences in Chile, Mexico, and other countries in the region.

1.2 Gains From Trade

If Ecuador can profitably sell goods and services in international markets, it gains resources from the rest of the world and achieves greater levels of income and consumption. If it buys imported goods at lower prices than it can produce them, Ecuador saves resources for other production or consumption activities. Ecuador can produce goods and services at costs that are equal or lower than the prices that prevail in international markets; to not do so is to forego income and consumption opportunities for its people. It can gain from both selling and buying from the rest of the world.

Countries that try to insulate themselves from the ubiquitous forces of world supply and demand impede the growth of income and achieve lower standards of living for their people. The main methods of maintaining economic insulation is by protecting local enterprise from more competitive imports. This is achieved by subsidizing (directly or indirectly) the local products and by restricting and taxing the imported products. This practice has a number of undesirable consequences; it encourages the local producer to waste resources and to produce at high cost because it is protected from competition. Exports are also encumbered because the economy as a whole operates at high costs as a result of the protection to import competing activities and the export products are not competitive internationally. Most developing countries have the advantage of low cost labor. High protection results in the survival of industries that do not use this low cost labor but rather depend on imported capital and intermediate inputs. However it also results in factories that can not achieve economies of scale because the firms can not sell enough within small domestic markets.

This process leads to excesses in the demand for foreign exchange at the same time that policies are discouraging exports. The imbalance between the "required" foreign exchange and that being generated by the export sector must be met by borrowing or from international aid. Since the imbalances tend to persist after the country's borrowing capacity is exhausted, the available foreign exchange must be allocated through administrative rather than market processes. With non-market allocations of scarce resources it is a matter of great luck and skill to avoid wasting these scarce resources. Regardless of the success of the allocation of scarce resources to productive sectors and consumption activities, the protected enterprises will remain high cost enterprises until the barriers to imports are removed and the enterprises are forced to lower costs in response to international competition and in response to opportunities to expand their markets internationally. So long as the protection exists, the protected are gaining at the expense of the unprotected. Even when the economic costs of protection are met from commodity booms which provide occasional windfall gains to a country, the population as a whole is made to forego income and consumption possibilities to provide resources to the protected.

Under more neutral (and thus open) economic regimes, the country's income is determined by its ability to produce with its own naturally abundant resources. To the extent that it can produce at internationally competitive prices, it can extract resources from the rest of the world by selling the goods and services that it can produce efficiently. Its ability to export determines its ability to import, and its ability to import represents higher levels of income and consumption. When the country restricts imports it hurts its consumers and wastes its exportable resources. Exporters are also punished by the high cost of the protected products that they use and consume; their costs must rise and they lose market opportunities and eventually the whole economy is worse off.

1.3 A Retrospective Overview of Trade Policy in Ecuador

Ecuador's geography helped it to evolve as an exporting economy in the coastal areas, and an inward-oriented economy in the highlands. Through most of its history the Ecuadorean economy has been subject to the benefits and risks of exporting into world commodity

markets; it has benefited from booms in cocoa, bananas, coffee, and importantly, oil; it has also suffered from the collapse of these booms. The booms have provided resources for internal development and have gradually led to a closer integration of domestic markets and of the highlands with the coast. The sequence of commodities' booms and busts have however created an understandable concern among many Ecuadoreans to being buffeted by the movement of prices in international commodity markets. It was, therefore, natural for Ecuador to become part of Latin America's drive for import substitution through industrialization in the period following World War II. The idea was to develop domestic industry and through the gains in income of the industrial workers create demand for the produce of other sectors. The nascent industry would, naturally need to be protected from international competition until it had a chance to develop how prices for primary commodities would also help the development of industry.

Ecuador began to promote industrial development in the mid 50s through industrial development laws, but in many ways Ecuador came late to the industrialization import substitution era. It was not until the late 60s that the institutional, legal and policy apparatus for promoting industrial development for internal markets gained impetus. The promotion of industrial development was made easier by the discovery of oil in the early 70s and the rapid rise in oil prices that occurred between 1974 and 1980. This allowed the authorities to extract resources from the rest of the economy to be transferred to the industrial sector. The means for transferring resources to the industrial sector involved direct subsidization, as well as implicit subsidization through interventions that changed the prevailing prices in product and factor markets.

The most succinct and complete presentation of the process for industrial development and its implications for trade and economic policy in Ecuador is presented by Orejuela¹, who emphasizes that the development of the industrial sector rested..." On the availability of foreign exchange that was generated by other sectors in the economy". In addition, to the industrial

¹ Orejuela Avila, M. "Industrialización y Empleo" en: El Ecuador en la Encrucijada: Crisis, Empleo y Desarrollo, Federación Nacional de Economistas del Ecuador, Corporación Editora Nacional, Quito, 1986.

sector's use of the foreign exchange proceeds from other sectors, an array of mechanisms for industrial promotion, such as monetary, exchange rate, and fiscal policies, "provoked a distorted assignment of resources in favor of an industrial process which was intensive in capital and discriminatory of labor"². The development of the industrial sector was also focused on the Andean Pact arrangements and their ambitious intentions to promote economic integration in the region. Within the programming of the Cartagena Accord for regional integration, Ecuador was to promote the development of its petrochemical, metal processing and automotive industries; these arrangements served as the foundation of the industrial development approach. To fulfill the strategy, a myriad of institutions were developed and the economy was guided through numerous laws and regulations. These, overall, represent a very complex structure of special treatment of the industrial sector. The industrial sector that evolved did grow rapidly during the period of the 70s, but its dependence on international capital and technology grew at a faster rate, with the sector often being a net user of foreign exchange.

The inward-oriented industrialization strategy has given rise to a very complex institutional and bureaucratic apparatus. This has, in turn, added uncertainty to the economic rules of the game, because there have been frequent changes and reversals in policies affecting exchange rate management, tariffs, and non-tariff restraints on trade. All of these have been primarily directed at protecting the industrial sector. They have also given rise to a large degree of state participation in the productive sectors of the economy through a number of institutional arrangements, such as direct ownership by the state of certain key industries and large investments by state run institutions in many other enterprises. Perhaps most notable of all, however, is the fact that the industry that evolved as a result of the strategy has increased the country's dependence on imports; two thirds of the country's imports are industrial inputs and capital goods. Likewise, the trade regime has been managed with a very complex set of classifications and tabulations, which classify importable goods into four or five different sets of categories, the purpose of which is to manage the mix of imports and to allocate productive and consumption resources across this various categories of goods. The industrial protection

² Orejuela, Op. Cit.

policy is also supported by a complex array of non-tariff barriers which include the requirement for seeking licenses for importation and exportation of goods, prior deposits of the foreign exchange equivalent of the goods being imported and exported, outright prohibitions on the importation and exportation of certain commodities, and exchange rate regimes which have tended to vary in their rules, at times in unpredictable manners.

Beyond the specific effects of these myriad interventions, their erratic application across time and commodities, and even across individuals creates an environment in which rent seeking and speculative behavior is promoted, rather than controlled. Because the government grants privilege to some firms and not others, the government is also pervasive in regulating the use and potential misuse of the privilege it grants. One of the most pervasive tools is the "Law of Control of Prices and Quality", which empowers the police to determine if trade behavior is speculative. Many prices continue to be set by ministerial decree, particularly basic consumption goods.

Ecuador's participation in the Andean Pact and in various regional schemes for economic integration have served more as a nuisance than an assistance to the development of the domestic economy. It is worth noting that during Ecuador's last two decades interregional trade has dropped significantly, and represents only around 10% of Ecuador's exports, even though Ecuador, along with Bolivia, was to receive preferential treatment by its regional neighbors.

The oil bonanza provided the resources for subsidizing industrial development, and the industrial sector did respond, having grown at a rate greater than the rest of the economy until the 1981-82 crisis. Since 1982, the Ecuadorian economy has been directed primarily by a process of continued devaluation of the domestic currency which has restored a certain degree of neutrality to the economic incentives. This has allowed other sectors of the economy to recuperate partially from the severe disadvantage that was imposed on them by the earlier industrialization policy. The exchange rate regime of the 80's has tended to neutralize the overall structure of incentives, yet, much of the apparatus for industrial promotion remains in

place. Many analysts of the Ecuadorean economy would agree with Rob Vos, (1987)³, *"the industrialization process in Ecuador created an industrial sector that is characterized by a bias against employment in favor of capital, a disproportionate use of scarce foreign exchange, an orientation towards internal demand that foments an unequal distribution of income, and the lack of vertical and intersectoral integration which impedes the promotion of economic growth and employment through out the economy."* The purpose of this report is to assist Ecuadorean authorities and the international institutions interested in supporting the development of Ecuador, towards reversing this process towards a more neutral economic regime. The aim is to achieve an increase, in income, employment and improvements in consumption for the population as a whole.

1.4 Overview of the of the Current Macroeconomic Policy Strategy

The key backdrop for the analysis and recommendations presented in this report are the proposals for structural adjustment and policy reforms represented in the letters submitted by the Borja government to the International Monetary Fund, the World Bank, and other international donors and creditors in January, 1990. As stated in the published reports on the government's economic plan, the principal aims of the proposed economic structural reforms are to promote the growth of national income by mobilizing the domestic economy toward production, and to achieve external equilibrium in the balance of payments within a framework of macroeconomic stability and a manageable service of the country's international debt.

The elements of this macroeconomic strategy are the continuation of the exchange rate regime that progressively devalues the domestic currency so as to attempt to maintain international competitiveness, an increase in flexibility in the domestic markets, and increases in the prices of energy and publicly provided goods and services. These latter measures are primarily aimed at stabilization objectives. To promote growth, the country has initiated a process of sectoral reforms, including an ambitious and forward looking tax and fiscal reform. Recently a law for trade policy reform was passed, and movements towards flexibility in

³ Rob, Vos "Industrialización, Empleo y Necesidades Básicas en el Ecuador" Corporación Editora Nacional, Quito, 1987.

financial and labor markets have begun.

Specifically, the tariff reform process which forms the principal element in the macroeconomic backdrop for this report consists of a 30 month strategy which will be carried out in three stages. The first stage is the implementation of a tariff reform law, which already has been passed by the national congress. The tariff reform law is based on a modification of the customs nomenclature in accordance with the Andean Pact and in concert with nomenclature being promoted by the General Agreement on Tariffs and Trade (GATT). In addition to a streamlined nomenclature, the law will seek to immediately reduce the tariff surcharge, which has been applied to many items. Also, the government has been relaxing administrative restraints on trade, which were instituted in late 1988 in an attempt to stabilize the external sector of the economy. These have included a relaxation of the prohibitions on importation of capital goods and a relaxation of the requirement that imported manufactured items be financed from exterior sources. During 1989-1990, the government has been attempting to streamline the administrative operations for international trade and trying to maintain a competitive exchange rate by closing the gap between the Central Bank's intervention exchange rate and the floating exchange rate that operates in the free market. Within the Central Bank's management of the exchange rate, the gap between buying and selling rates for foreign exchange has been progressively closed.

The second stage of the tariff reform involves an elimination of exchange rate risk surcharges and a reduction in the dispersion in the tariff structure, raising the minimum tariffs for many items and lowering the maximum tariffs for many others. This will produce a lower average and less variable tariff structure across sectors and subsectors. As part of the second stage of the trade and tariff reform, the government will announce regulations for the existing policy of tax exonerations and non-tariff, i.e. quantitative restrictions on trade. "It is expected that by the end of 1991, a detailed study on the structure of effective protection will allow a complete revision of the structure of tariff protection, given to the industrial sector, the aim of this is to provide adequate but not excessive protection to industry."⁴

⁴ Jorge Gallardo, Ecuador's Minister of Finance, and Public Credit. Quoted in "Hoy".

Stage Three will be carried out in the last year of the current administration, and will continue with a gradual process of economic adjustment. In this phase quantitative restrictions will be eliminated and attention to the trade policy regime with respect to export promotion will be intensified.

Throughout the promotion of this new trade reform, the government has repeatedly stated in many fora, and by many of its representatives, including the Minister of Finance, and other members of the economic team, that the overall strategy is to turn away from the inward oriented import substitution industrialization approach to one that seeks to make the Ecuadorian economy competitive in the external sector. As such, it represents an important reorientation of the development strategy for the country as a whole. What is sought is to insert Ecuador into the modern global economy and to eliminate the import promoting and anti export bias which has persisted in the tariff and commercial policy.

The point of departure for trade reform is the structure for industrial protection which has been estimated to be so severe that many industrial activities absorb more than twice as many domestic resources in the production of goods than would be necessary, in the absence of such a highly intervened trade regime. This high degree of protection and intervention has induced tremendous incentives for smuggling and incentives for rent seeking and the protection of vested interests.

The country suffers from a large degree of administrative intervention which has eroded its internal capacity to compete within the Ecuadorean economy itself. Each day the newspapers are full of the new lists of products whose prices are being controlled or liberated, or moved across classifications from those whose importation is prohibited, to those which are taxed at high degrees, to those which are to receive more favorable treatment. With some frequency, the Ministry of Government announces renewed efforts to control speculation and to stop inflation via price controls. Such announcements are frequently accompanied by reports that the police have arrested some intermediary for hoarding basic commodities. The macroeconomic reform proposals have not yet addressed these important but pervasive

microeconomic interventions in the domestic economy. As long as these persist, the ability to respond to the new macroeconomic rules of the game will be serenely hampered.

The proposed reforms have generated a lot of concern, particularly within the industrial sector, that the proposed tariff reforms will "Expose national industry to the mercy of unfair competition from other countries, where exports are being subsidized"⁵.

⁵ Head of the Chamber of Industry quoted in "El Universo".

2.0 ANALYTICAL FRAMEWORK

Ecuador as a small economy cannot affect international prices; to Ecuador these prices are given. The prices of goods and services that cannot be traded internationally are the only prices determined by domestic market conditions and the economic policies and even these are strongly influenced by international market conditions and the domestic policies that attempt to control international trade. In the absence of economic policies the domestic prices for goods that are (potentially) tradeable internationally would be identical to the international prices plus transportation and marketing costs.

These simple concepts are the essence of understanding the role of economic policies that affect Ecuador's ability to gain from international trade. These concepts yield a straight forward analytical framework; economic policies can be analyzed in terms of their effect on the relative prices of tradeable to non-tradeable goods. Non-tradeable are those goods whose prices are determined by conditions of supply and demand in domestic markets. The price of a non-tradeable is the price at which domestic supply will exactly equal demand. The prices of non-tradeables are not independent of the prices of tradeables, however, because these two classes of goods compete with each other for the purchasing power of consumers and in the markets for resources (factors) used in production. In the absence of policy interventions all of this can be summarized as follows:

$P_t = P_t^w$ i.e., the domestic price of a tradeable would be the international price⁶. The price of a non-tradeable good is determined by domestic market clearing; that is, (supply equals demand). Supply and demand are each functions of prices and other factors, so that the price of the non-tradeables can be determined from the equation that equates supply with demand: $S_n(P_n, P_t) - D(P_n, P_t) = 0$ which can be solved for P_n (the price of non-tradeable) as a function of P_t (the price of tradeables) that is $P_n = F(P_t)$.

⁶ Typically we would assume that transport and transaction costs are included in P^w i.e. P^w is the price that includes transportation and marketing costs at the domestic point of use. This is typically referred to as the CIF price.

The domestic prices of non-tradeable goods and services are affected by the domestic prices of tradeables, which are determined by international markets and by domestic economic policies, $P_i = E P^w (1 + \tau)$. This equation illustrates that domestic prices of tradeable goods can be made to diverge from their international value by exchange rate and trade policies. In the equation, E denotes the exchange rate denominated in units of domestic currency per unit of foreign exchange, in the case of Ecuador, Sucres per U.S. dollars. If the exchange rate, E , is at its long term equilibrium value, then E is simply a conversion factor of dollars into sucres. If policies cause E to diverge from equilibrium, then the prices of tradeables diverge from their internationally determined market value, and their opportunity value to Ecuador. The exchange rate can be affected by explicit policies in the market for foreign exchange such as currency controls, multiple exchange rates, etc. The exchange rate at which a particular good is traded can also diverge from equilibrium as a result of the indirect (implicit) effects of trade policy, monetary policy and other economy wide policies. Trade policy for example has direct and indirect effects on the prices of tradeable goods. Explicit trade policy is represented by the symbol τ , which is the proportion by which the price of a tradeable rises or falls (away from its international value) as a result of tariffs, trade controls or subsidies.

While it is obvious that a tariff or subsidy can cause the domestic price of a tradeable to be higher or lower than its international value, non tariff barriers to trade also affect the prices of tradeables. An import quota or an outright prohibition on an import good would cause its price and that of its near substitutes to rise, and an export quota or prohibition would cause the price of exportables to fall in the domestic markets. These are the direct effects of explicit trade policies which a country can use in an attempt to generate revenue for the government and/or to influence the allocation of resources in the economy. In addition to revenue generation, trade policy is used to pursue domestic objectives such as the development of an industrial base (tariff and non-tariff protection to domestically manufactured goods) or the promotion of food security (prohibition of the exporting of agricultural goods).

2.1 A Measure of the Bias in Trade Policy.

There are, important indirect and often unintended results from explicit policy intervention on trading (imports and exports). Consider the case of tariff protection to the manufacturing sector in a country that like Ecuador also produces exportable goods.

Let P_m denominate the domestic price of manufactured goods that compete with importable manufactured goods, and let P_x denote the domestic currency price of goods produced for export. For simplicity of illustration it is useful to assume an economy in which only three classes of goods are produced, manufactured goods that compete with imports, denoted with m ; exportable goods, denoted with x ; and non traded goods, denoted with n . The corresponding prices are P_m for the manufactured and import competing goods, P_x for the exportables and P_n for the non-traded goods.

The relative prices of goods specify the value of one type of good in terms of the other and represent the real, as opposed to nominal value, of that good, that is P_m/P_n and P_x/P_n are the relative (real) prices of the tradeable goods (m and x) in terms of the non-tradeable goods. These ratios represent the ability of the producers of one type of good to exchange their goods for other goods and, at equilibrium, these ratios are exactly equal to the consumers' willingness to substitute one type good for goods of the other type. The policy effects in the domestic markets are given by the following equations:

$$1) \quad P_m/P_n = [E \cdot P_m^w (1 + \tau_m)]/P_n$$

Where τ_m is the tariff equivalent of an industrial protection policy.

If there are no explicit interventions in the export market, the domestic relative price of exports is given by:

$$2) \quad P_x/P_n = E \cdot P_x^w/P_n, \text{ and the explicit effect of the industrial protection policies on the relative prices of importables versus exportables is given by dividing equation (1) by equation$$

(2), to produce:

$$3) \quad a) \quad P_m/P_x = [P_m^w (1 + \tau_m)]/P_x^w$$

So that in the absence of exchange rate distortions the factor $(1 + \tau_m)$ would measure the bias of the trade policy in favor of the manufacturing sector and against the sector that produces goods for export. A simple way to view this is that domestic products of exports must relinquish $(1 + \tau_m)$ times the resources that would be necessary to acquire a manufactured item in internal markets if they are forced to acquire it from the domestic protected manufacturing sector. This measure can be computed by comparing the domestic relative prices to the international relative prices. If the export sector were also affected by trade policies in a direct way, say by an export subsidy, or tax, the relative domestic prices of importables to exportables would be:

$$3) \quad b) \quad P_m/P_x = (P_m^w/P_x^w) \cdot (1 + \tau_m)/(1 + \tau_x).$$

The factor $(1 + \tau_m)/(1 + \tau_x)$ is called the trade bias measure⁷, and can be computed from estimates of the domestic and international terms of trade; values close to unity imply a neutral structure of incentives. Neutrality does not require "laissez-faire", but only that the treatment across sectors be uniform, values greater than one indicate that the manufacturing sector is favored at the expense of the exporting sector, and alternatively, values less than one imply an exporting bias in the trade policy.

2.2 Indirect Effects of Trade Policies.

Explicit trade policies, such as those that seek to protect domestic industry from international competition through tariff and non-tariff barriers to manufactured imports also produce important indirect effects on the economy's structure of incentives via their effect on the market for non-tradeables and on the real exchange rate. As stated earlier, the prices on non-tradeable is given by the equilibrium of supply and demand in domestic markets, $(S_n = D_n)$ and these are determined by relative prices so that $S_n - D_n = 0$ implies

$$4) \quad P_n = H(P_x, P_m).$$

That is the price of non-traded goods is determined by the international prices of the

⁷ Diaz, Alejandro.

tradeables and the explicit economic policies.

Consider the case of protection to manufacturing as given in the following equation:

$$5) \quad P_m = E P_m^w (1 + \tau_m).$$

The tariff equivalent of the protective trade policy would cause a rise in the nominal price of the manufactured goods P_m produced in the protected industrial sector. This price rise would direct consumers' demands away from the now higher priced manufactured goods to the other goods, the exportables and the non-tradeables. The nominal price of the exportables is given by international market conditions so it cannot adjust; the burden of adjustment is placed on the market for non-tradeables, and P_n must rise to accommodate for the induced increased demand for non-tradeable goods and services. In the face of the induced rise in the nominal prices of non-tradeables the domestic relative prices of the tradeables must also change; in the case of the exportables this is given by:

$$6) \quad P_x/P_n = E \cdot P_x^w/P_n.$$

Only the ratio E/P_n can change to accommodate the rise in P_n .

The ratio E/P_n is the ratio of the nominal exchange rate, E , to the price on non-tradeable; that is E/P_n is the real exchange rate. With P_n rising in response to the industrial protection policy (represented by τ_m), the real exchange rate, E/P_n , falls, and if E is not adjusted upwards (more sucres per dollar) the domestic currency appreciates, i.e. the currency becomes overvalued. This is one of the major indirect results of an industrial protection policy; it causes appreciation of the domestic currency and a decline in the real domestic prices paid to exporters.

The proportion of the tariff, τ_m , by which P_n rises is known as the incidence of the trade policy (Sjaastad, 1980, Garcia 1981, Sjaastad and Clements, 1987, Scobie et al, 1988). This proportion has been estimated econometrically for Ecuador by several analysts with values in the range of 0.5 to 1 (Hachette, 1990, Scobie et al, 1988). What this means is that less than half of the tariff equivalent results in "true" protection to the industrial sector and that the

dominant result is a disproportionate tax on the production of exports,⁸ because when P_n rises, the real exchange rate received by exports must fall.

The two concepts described above, trade bias and the trade incidence parameter are used in this report as the main tools for the quantitative assessment of the trade policy which have been pursued by Ecuadorean authorities in recent years and for assessing the prospects for improved economic performance which may arise from the proposed trade reforms.

2.3 Effective Protection and Factor Market Intervention.

There exist a number of other measures which can be computed to make quantitative assessments of trade policy and other economic interventions, that affect the structure of economic incentives faced by the producers and consumers in a given country. Among these are the concept of effective protection, and domestic resource costs; in this report the first of these will be used as a framework for an assessment of the economic policies other than direct trade interventions which have effected the structure of economic incentive and the performance of the Ecuadorean economy.⁹ Domestic resource cost calculations are useful for identifying specific activities that are competitive (efficient) as imports or exports.

Effective protection is defined as the ratio of domestic value added to international value added, that is, the value of a good in the domestic market net of the domestic cost of the non labor inputs used in its production divided by the value that would obtain if the

⁸ In the economic literature the incidence of trade policy has been denoted by ω equal to the proportion of the rise in the tariff equivalent by which P_n rises, true protection is given by $(1-\omega)\tau$ and the tax on exports by $-(1-\omega)\tau/\omega$. For example, Hachette has estimated $\omega=0.8$ for Ecuador, this means that only 20% of the intended protection results in "true" protection; non-traded goods prices must fall by 25% of the increase in industrial protection.

⁹ These two measures are relatively more intensive in data because they require prices and cost of data production for individual commodities, as well as information on the specific commodity by commodity interventions that may be applied to, and the divergence of product and factor prices from their international valuation.

product and the inputs were valued at their international prices. In the absence of any economic interventions all products and intermediate inputs (factors) would be valued at their international value, and, therefore, the effective protection measure would be one. If, however, as is usually the case, there exist trade interventions such that domestic production is being protected, the calculation of domestic value added will exceed the international value in the protected sector. The excess by which this ratio of domestic value added to international value added exceeds unity is the measure of effective protection.

Effective protection in excess of unity (or neutrality) can arise in a number of manners, such as deviations of the effective exchange rates from their long run equilibrium value, from explicit trade policies on the product market as discussed above, and from interventions in factor markets. An overvalued exchange rate for example, usually requires a system of exchange controls; the exchange regime generates a situation in where the dollars which could be used for importing finished products (even if they are smuggled) are usually higher cost dollars in terms of the domestic currency, than say, officially provided dollars for the purpose of importing purchased inputs. This will tend to raise the domestic value of the final product in the domestic market arbitrarily, and reduce the cost of production, thus resulting in a net increase in the calculation of domestic value added, and, therefore, in a net increase in effective protection. Dispersion in the tariff structure and differential application of non-tariff barriers to trade can also cause domestic value added to diverge from international value added. In the case of an import substitution industrialization type development strategy, this will typically entail very high nominal tariffs for finished consumer products and low or non-existing tariffs for intermediate inputs, this again causes domestic value added to be much higher than international value added.

Factor market interventions such as those arising from industrial development schemes can also raise the level of effective protection faced by a sector. For example, this occurs when capital equipment or infrastructure that are used in the productive process are subsidized by tariff and fiscal exonerations and/or through preferential or subsidized interest rates. Also, the provision of energy and other public utilities at subsidized prices will tend to raise the effective protection of sectors that are intensive in energy and in the services of public

utilities. In Ecuador, exchange rate policies, tariff and non-tariff policies, industrial promotion laws, industrial promotion schemes, the fiscal system, and the role of government in the provision of services have all tended to favor the manufacturing sector and to raise its effective protection. Effective protection is a useful concept for assessing trade policy because it measures the combined effects of multiple policies as they affect the economy's use of resources. Positive protection rates mean that domestic resources such as labor and natural resources are being used inefficiently by the protected sector, i.e. the economy is wasting its wealth to protect inefficient producers. When effective protection is below unity it means that the producers of those goods are being taxed and the economy is foregoing production and income. In the main stream of modern economic analysis, it is now widely understood that protection to one sector necessarily requires castigation of some other sectors.

2.4 Non Price Factors that affect Trade Performance.

In addition to the explicit policies discussed above, there are other factors that affect the performance of the economy with respect to its international opportunities. These include the transportation infrastructure, the bureaucratic/administrative apparatus that regulates trade, information, grades and standards, and other services that may be provided by the public sector in support of international trade, as well as specific factors related to the quality of the labor force, the quality of raw materials and intermediate inputs, and the entrepreneurial talent of producers. A selected number of these aspects are discussed in this report.

3.0 THE STRUCTURE OF INCENTIVES AND TRADE PERFORMANCE

This section presents an analyses of Ecuador's trade performance in the context of the policies which have been pursued within the industrialization strategy, the oil bonanza and the adjustments of the 1980's. The role of oil exports as a driving force for the economy is central to understanding the nature of Ecuador's policies that affect the volume and composition of trade. Oil revenues provided the resources for a rapid expansion of the role of government in the economy and provided the resources to fill the resulting gaps between supply and demand in private markets. Importantly, the rapid infusion of foreign exchange during the oil bonanza and the run-up of international debt caused the currency to become progressively over valued, and the exchange rate became an incentive for imports and a disincentive for exports. This process tended to erode the protection to the industrial sector so that further intervention was required to protect the industrial sector. As more resources were transferred directly and indirectly to industry, less was available for other productive sectors. The following sections use measures of trade bias and effective protection to describe the price effects of the economic policies. The evolution of the real exchange rate is used to integrate the inter sectoral incentive structure for trade and to analyze the current situation regarding the incentives for export. This chapter concludes with some qualitative analysis of regulatory and entrepreneurial issues that affect the economy's ability to respond to changing incentives.

3.1 Oil Exports and "Dutch Disease".

During the beginning of Ecuador's industrialization strategy in the 1960s, the economy became progressively closed, but it was forced open by the discovery of oil at the time that world commodity prices were rising. Figure 1 presents the trade performance of Ecuador from 1965 to 1988. Total trade (imports plus exports) tripled in real terms in the period. This very rapid growth in imports and exports was fueled primarily by the discovery and production of oil. The oil bonanza of the 70s forced Ecuador to become a more open economy and trade became a greater share of the Ecuadorian economy. Even with the boom in oil exports, Ecuador has maintained a negative position in its current account balance as seen in figure 2.

During the period of the bonanza its negative trade position increased, and the growing trade deficits had to be financed with increasing international indebtedness. This negative balance is no longer sustainable, and even if Ecuador expects another oil boom, it must turn to non-oil sources of foreign exchange earning to provide for its imports and to service its international debt.

Figure 1

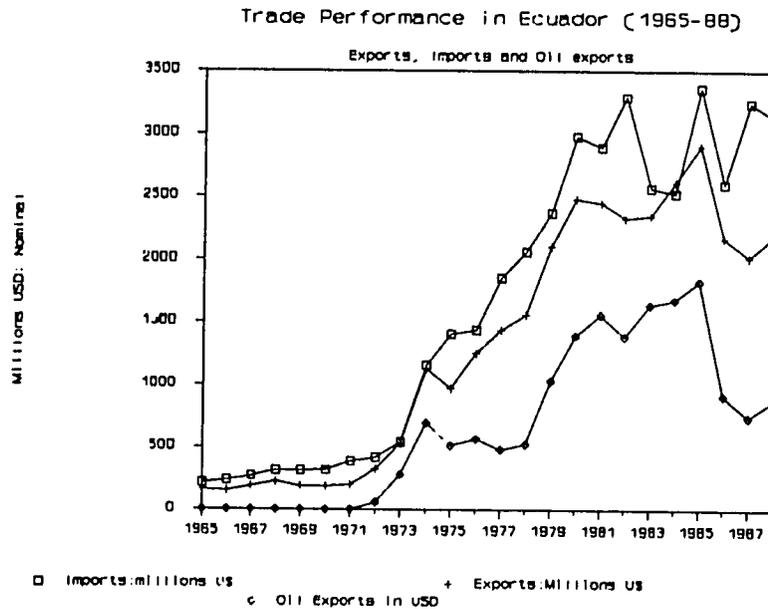
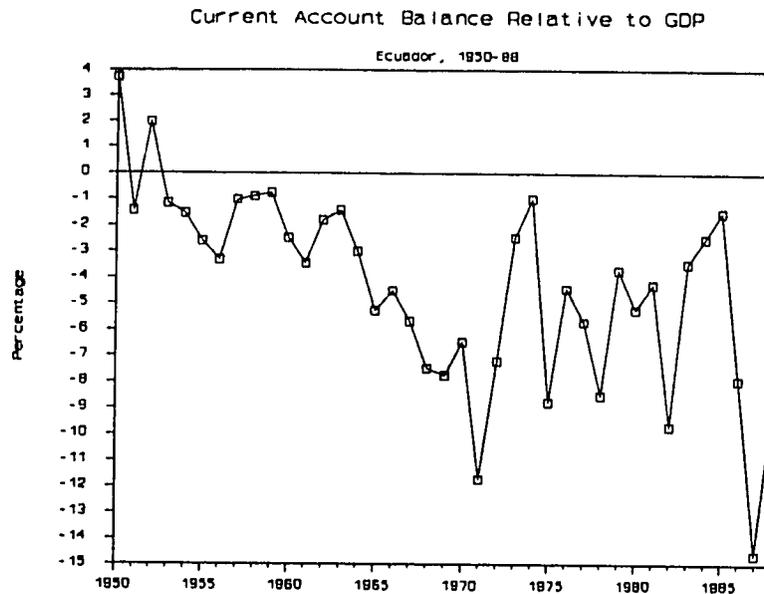


Figure 3 demonstrates the clear dependence of Ecuador's economy on oil exports until the beginning of the period of adjustment in 1982. The top line in the graph indicates the time pattern of total exports inclusive of oil exports, and the bottom graph indicates the performance of Ecuadorean exports in the absence of oil. From 1975 forward non-oil exports have represented less than half of total exports for Ecuador, as a result of the negative effect that oil exports had on the performance of the other exporting sectors in the economy. The downward trend of non-oil exports in the late 70's and into the early 1980's, have been described by several analysts, (Scobie, et al, 1988, among others) as "Dutch Disease". Dutch disease is an economic phenomena whereby a booming exporting sector causes indirect economic effects in other sectors of the economy, via the effect that the influx of foreign exchange has on the real exchange rate. The phenomenon is known as Dutch disease because it was first analyzed in the case of the discovery of natural gas in the North Sea by Holland

Figure 2



in the early sixties. The phenomenon arises because the foreign exchange earnings of the booming sector allow the exchange rate faced by the other sectors to be lower than it would of been in the absence of the boom. In the case of Ecuador this phenomenon was aggravated by a relatively rigid exchange rate policy until 1982. With the exchange reforms since 1982, non-oil exports have begun to recover from Dutch Disease.

This paradox of a commodity boom leading first to a greater degree of openness for the economy and then contributing to its closure is central to understanding the trade performance of Ecuador. Figure 4 presents graphs for an index of openness for the Ecuadorean economy from 1965 to 1988. This index is the sum of the total value of exports plus imports divided by total domestic output. The graph in figure 4 clearly demonstrates how the oil boom at first opened up the Ecuadorean economy at a very rapid pace in the early 70s, but then proceeded to contribute to its closure through out the period of the boom. It was not until the response to the collapse of the oil prices and the curtailment of Ecuador's ability to borrow in international markets, aggravated by the El Niño phenomenon, in 1982-1983, that Ecuador was forced to turn towards a more open strategy. Today, with a lower dependence on oil, the economy is more open as a consequence of the policies pursued by

Figure 3

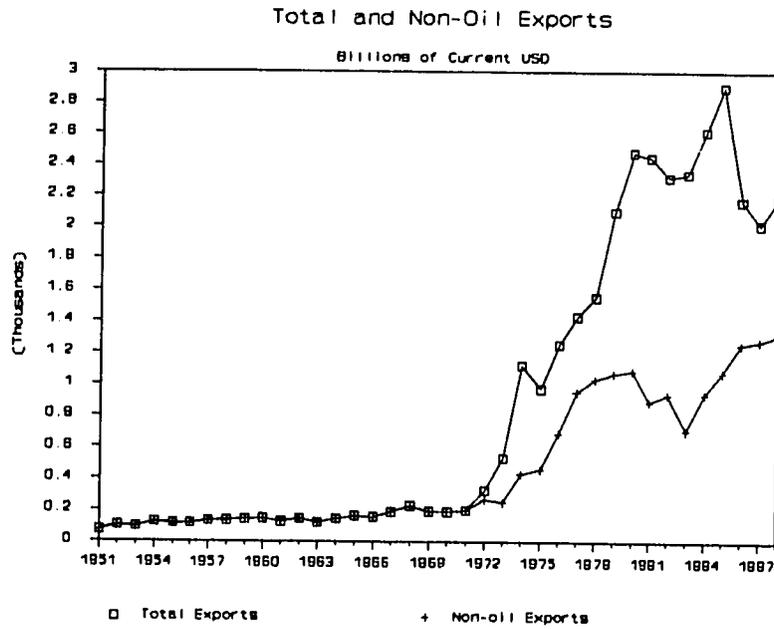
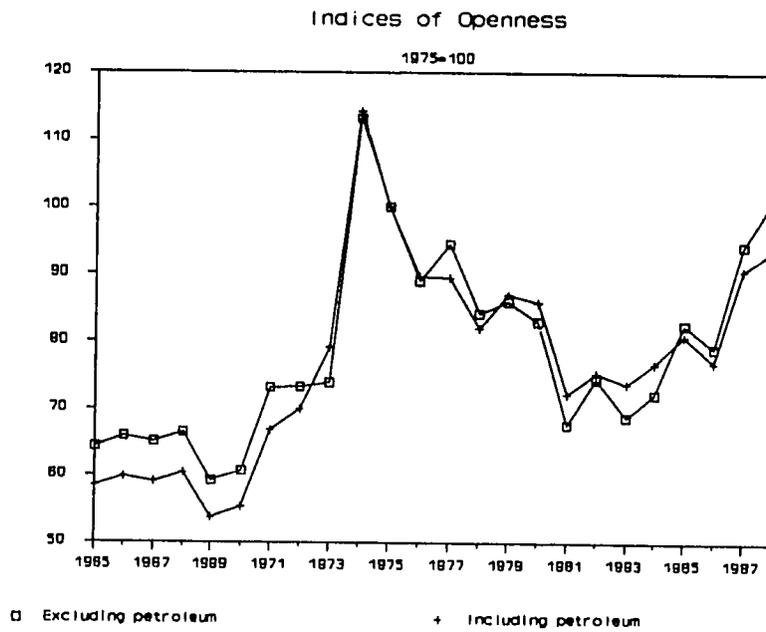


Figure 4



the three administrations that have been in government during the 1980s. The above notwithstanding oil remains the dominant export (approximately 60% of export earnings in 1988/89) and other primary commodities (including bananas, coffee, cacao, and seafood)

account for almost a third of total exports; industrialized products represent less than ten percent of exports, and these are processed agricultural products and seafood.¹⁰

3.2 Trade Bias.

Figure 5 presents information that measures the relative openness of the economy as a consequence of domestic policies rather than trade flows as in Figure 4. The information presented in figure 5 is the ratio of the domestic terms of trade relative to the international terms of trade as a measure of trade bias.

(Díaz Alejandro)¹¹. As presented in figure 5, the measure of trade bias for Ecuador is an index relative to conditions that existed in 1975¹². The index is not an absolute index of trade bias, but it is a measure of the movement of the trade bias from the conditions that existed in 1975. As was seen in figure 4, by 1975 the Dutch disease phenomenon was already beginning to close the economy. Prior to that, the industrialization policies were already closing the economy. The graph indicates that the domestic policies including domestic price controls, fixed exchange rates, industrial protection and other policies that affected the structure of relative prices tended to favor the manufacturing sector in an increasing way throughout the period of the 70s. Whatever distortions that existed in 1975 in favor of the manufacturing sector relative to agricultural exports were intensified by an additional 80% by 1979. The bias against exports and in favor of manufacturing nearly quadrupled during the decade of the 70s.

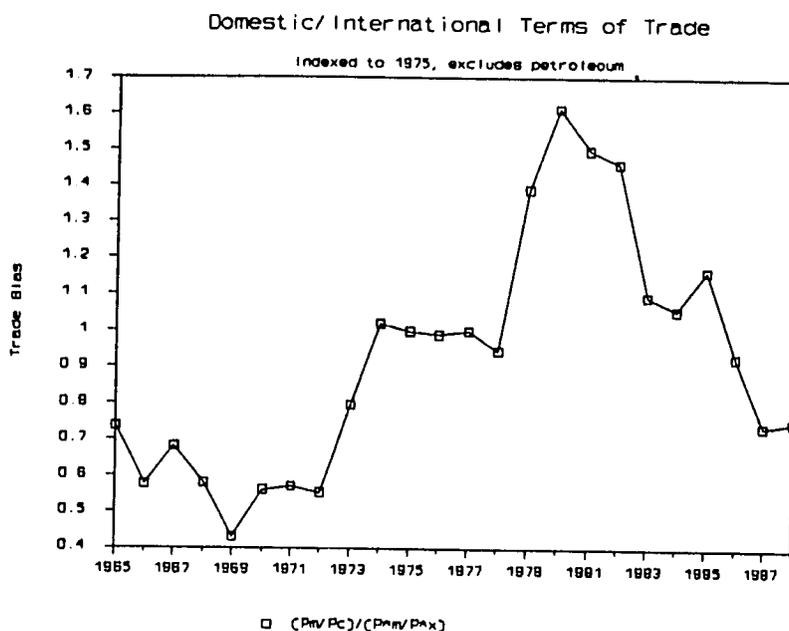
The international crisis that ensued in 1981, followed by the 82-83 El Niño disaster, forced a partial but significant reorientation of domestic pricing policy so that by the mid 1980s the bias against exports had been returned to the levels prevailing at the onset of the petroleum boom. However, the relative bias against exports continues at levels higher than

¹⁰ Oswaldo Dávila A. "Exportaciones: La Ley del Más Fuerte", Martes Económico Marzo, 13, 1990. El Comercio, Quito.

¹¹ Díaz Alejandro, Op. Cit.

¹² The choice of 1975 as the index base is used because most aggregate statistics for Ecuador are published relative to 1975.

Figure 5



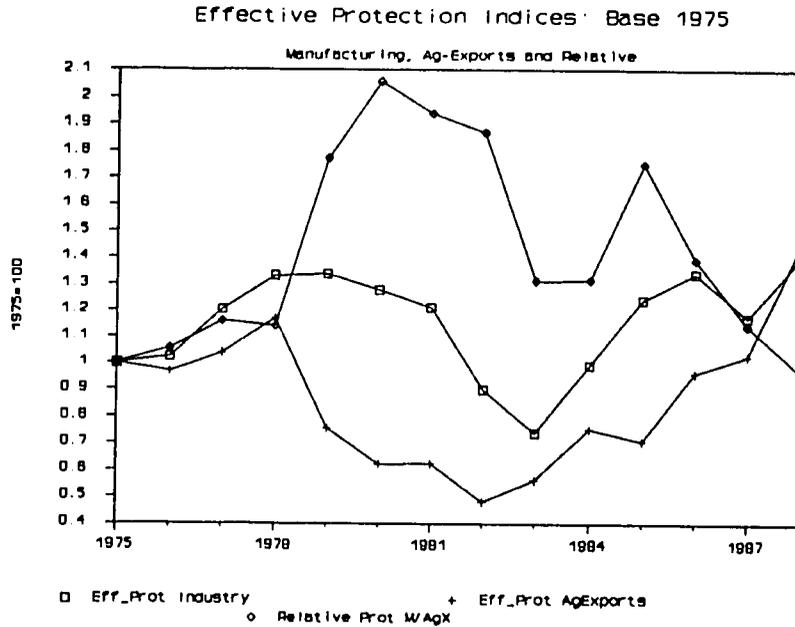
those prevailing during the onset of the import substitution industrialization strategy of the late 50s and 60s. While the adjustments that have taken place during the 80s are considered phenomenal by most analysts and observers of the Ecuadorean economy, it is important to know that they have at best only returned the structure of economic incentives to conditions that prevailed under the import substitution industrialization strategy. The bias against exports remains as an integral part of the policy and institutional framework.

3.3 Effective Protection.

In Ecuador many of the distortions in the trade policy which have been directed at favoring the manufacturing sector were not intended explicitly to hurt the exporting sectors. The evidence from analysis in many countries is now clear, however, that efforts to protect one sector can have massive and often unintended effects on other sectors. This is highlighted in the case of Ecuador by figure 6, where indices of effective protection are presented. These indices are calculated for the base period of 1975 and indicate the movement of effective protection from the conditions that existed in 1975. As has been pointed out, 1975 already represented a strong bias in favor of the manufacturing sector and against exports, as a result

of explicit policies to favor the industrial sector through tariff and non-tariff protection. The effective protection measure in Figure 6 captures the effects of the stimulus given the manufacturing sector in factor markets via the exoneration of tariffs for capital goods and intermediate inputs, as well as other factor market distortions.

Figure 6



The indices in figure 6 indicate that effective protection for the manufacturing sector continued to rise relative to what existed in 1975 until the crisis years of 1982 and 83. During that same time period the effective protection for agricultural exports dropped severely until the policy change in 1982. The factor market conditions are taken into effect in the calculations of effective protection; when these are added to the pricing policies (trade bias), they all indicate that the distortions favoring manufacturing and punishing agricultural exports became quite severe during the late 70s. This conditions have only turned towards neutrality during the mid 80s. It is important to note, however, that the graphs are based on an index from 1975 and already reflect conditions that were undoubtedly severely distorted. The policy initiatives of the 1980s have tended to correct the bias against exports, but have not placed Ecuador under a set of a neutral intersectoral incentives, and the manufacturing sector continues to be highly favored. In fact it appears that the manufacturing sector has been, at

least in part, compensated through factor market subsidies for what it lost in the product market as a result of the exchange rate devaluations during the 1980s. The index of effective protection suggests that since 1975, the factor market subsidies to the manufacturing sector have added approximately 30% to the intersectoral terms of trade favoring manufacturing over agricultural exports. The factor market distortions have become more accentuated during the 1980s, however. The measure of relative effective protection in comparison to the measure of trade bias indicates that the intersectoral incentives have favored manufacturing by almost 50% more as a result of the factor market subsidies to manufacturing. While a continuation of the policy of devaluations to maintain export competitiveness and the proposed tariff reforms should help correct the punishment of exports, there is also a need to explicitly correct factor market distortions such as access to subsidizing capital. (See Youngblood et al, 1990).

The manufacturing sector did respond to the promotion that it received as a result of the import substitution industrialization strategy and the other policies that have favored it over the last 30 years. Figure 7 indicates that the manufacturing sector grew steadily in real terms through out the period until 1983, at which time it went into a period of stagnation. Figure 7 is important not only because it shows that the manufacturing sector became increasingly important to Ecuador, but it also illustrates that the manufacturing sector responded to price incentives as represented by the domestic pricing policies, the exchange rate policy and the domestic trade policy. As these policies tended to favor manufacturing, the sector grew; when the policies removed some of the distortions in favor of the manufacturing sector, the manufacturing sector responded with slower growth. During the eighties it appears that what was taken from the manufacturing sector by the attempts at trade liberalization and the devaluations was more than restored through interest rate subsidies and fiscal and tariff exonerations.

The performance of the manufacturing sector relative to the performance of the agricultural sector and the rest of the non-oil economy is presented in figure 8. The performance of all sectors in the Ecuadorean economy respond to price incentives, when manufacturing was favored highly it had a rapid rate of growth, and when at the beginning of the 80s the policies began to be neutralized, the performance of the manufacturing sector

tended to level off and agriculture responded to the more neutral incentives with rapid growth. When trade controls were instituted again in 1986, this led to another growth spurt in the manufacturing sector. Together these graphs clearly indicate that the Ecuadorean economy as a whole and its individual sectors respond to the incentive signals presented by the structure of relative prices.

Figure 7

Real Manufacturing GDP Indices, 1965-88

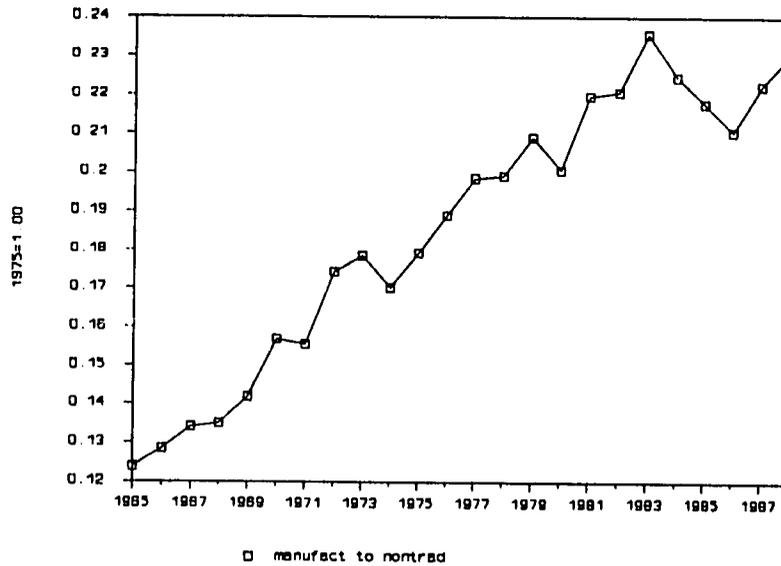
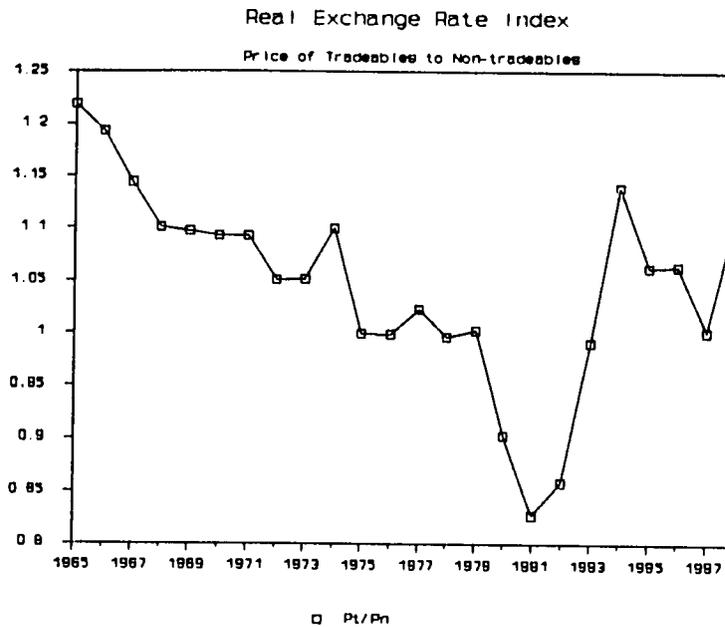


Figure 9

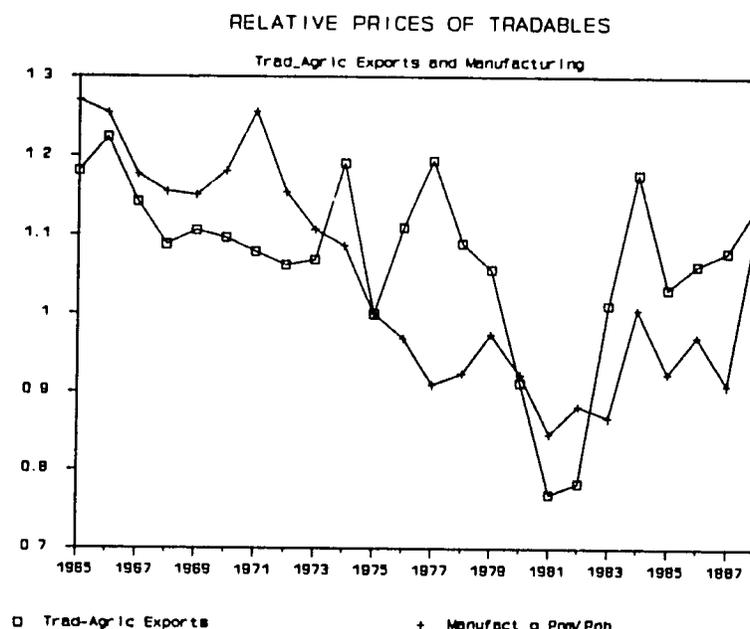


the oil boom. The trade policy has not yet been significantly reformed and, therefore, the intersectoral incentives have not been yet neutralized. This is illustrated by figure 10, which presents the sectoral relative prices for agriculture and manufacturing. The price series are given in terms of the ratio of agricultural prices relative to the price of non-tradeables and manufacturing prices relative to non-tradeables. These two series represent the real exchange rates faced by each of the two sectors. The graph illustrates the tendency for manufacturing to be favored relative to agriculture in the 60s and early 70s prior to the oil boom, and it also illustrates the partial correction of the intersectoral price incentives in the post devaluation era, 1982 onwards.

During the period of the petroleum boom (1975-1979) real domestic agricultural prices rose more rapidly than the domestic manufacturing prices in spite of the industrial protection and Dutch disease. This reflects an important aspect of the conduct of domestic pricing policies in product and factor markets. The upward climb in domestic agricultural prices during the late 70s simply reflects a transmission of the commodity booms in bananas and coffee, coffee in particular, that took place during the late 1970s. During the second half of the 70s not only were oil prices high but so were most agricultural commodities including

cereal grains. Even though Ecuador was pursuing a very restrictive agricultural policy, it was unable to totally isolate itself from conditions in world markets. Regrettably, the policy bias against agriculture prevented Ecuador from benefiting as much as it could have from the higher international prices for its traditional agricultural exports.

Figure 10



The improvement in agricultural prices that has been experienced during the 1980s, as given in figure 10, has come at a time when commodity markets have tended to be depressed in international markets. This reflects the important role of the real exchange rate in determining the intersectoral structure of incentives. The significant and rapid response of the agricultural sector to the improved price incentives came about as a result of the real exchange rate policies that have been pursued throughout the 80s. If other trade distortions in the economy were removed, the export performance of the economy as a whole could be significantly improved. The distortions and rigidities in factor and product markets, particularly those facing the manufacturing sector which paradoxically are intended to promote its development, are severely limiting its own development.

Another very significant aspect of Ecuador relative to international markets is the importance of the markets with Colombia and Peru; these represent important trade

opportunities for highland agriculture. The prices for highland commodities responded most rapidly to the improvements in the real exchange rate. This is significant, because it means that as the real exchange rate reforms transmitted themselves throughout the economy during the 80s, highland commodities such as potatoes, soft maize, livestock products, dairy products, etc., were now faced with improved incentives arising from the opportunity to export to the neighboring countries. Traditional agriculture in the highlands, which has not received any stimulus from the official sector throughout the history of Ecuador, was the most responsive to the improved intersectoral incentives. Importantly, this response of the highland agricultural sector to the improved incentives, reflected itself in significant improvement in output, and significant improvement in the incomes of highland dwellers. Table 1, presents the growth in per capita incomes for eight different population groups. During the mid 80s, the highland rural population, which had been traditionally the poorest segment of the Ecuadorean population, was no longer as a group the poorest segment, having improved its incomes by its response to the improved intersectoral incentives given by the real exchange rate policy.

Figure 11

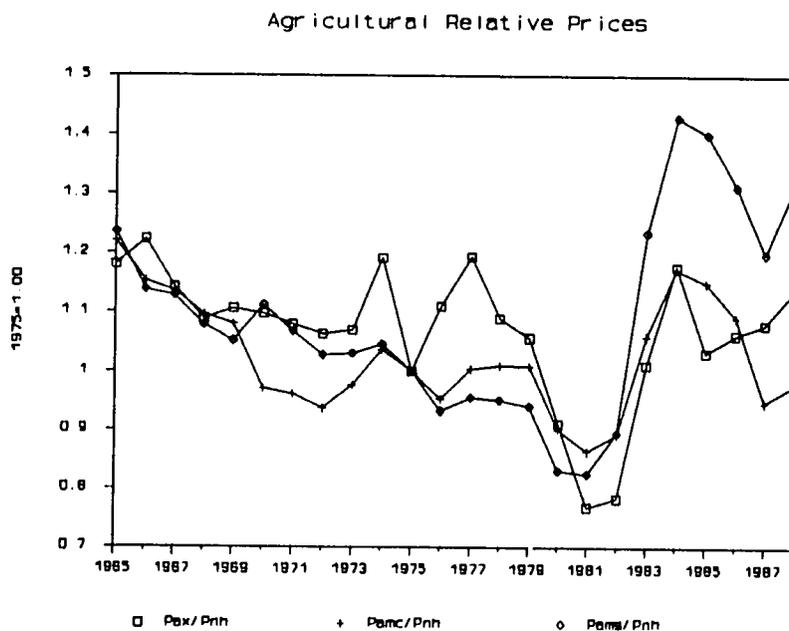


Table 1 presents the evolution of incomes in per capita terms for specific population groups for the period 1975-1988. The estimates were calculated through use of the National Expenditure Surveys (Urban, 1976 and Rural, 1979) to allocate sectoral value added to the households in each of the groups. The incomes were converted to real terms by deflating with a cost of living index that was calculated specifically for each population group. The results measure the purchasing power of the households in each group.

**Table 1. Evolution of Real Per capita Incomes (1975-1988)
Indexed within population group to 1975**

<u>Year</u>	<u>Quito</u>		<u>Sierra</u>		<u>Guayaquil</u>		<u>Coast</u>	
	<u>Upper</u>	<u>Lower</u>	<u>Urban</u>	<u>Rural</u>	<u>Upper</u>	<u>Lower</u>	<u>Urban</u>	<u>Rural</u>
1975	100	100	100	100	100	100	100	100
1976	104	105	105	101	108	107	109	114
1977	110	111	110	104	116	114	117	123
1978	112	115	113	108	116	116	120	127
1979	111	115	113	110	116	117	122	133
1980	118	122	122	122	119	122	131	142
1981	118	122	123	129	117	121	133	151
1982	113	117	117	127	112	116	128	150
1983	97	99	96	111	97	99	108	135
1984	91	93	88	108	93	94	102	137
1985	91	93	89	112	92	93	104	144
1986	90	92	89	113	93	93	106	151
1987	92	93	91	120	93	93	111	162
1988	89	92	91	121	95	96	111	157

The information in the table confirms the rise in per capita incomes resulting from the oil boom in the period from 1975 to 1980. Incomes then fall in 1982-83 as a combined result of the external economic crisis and the El Niño disaster. Significantly, rural household incomes begin to recover in 1984 in response to the economy wide pricing reforms, primarily the exchange rate policy. Through 1988, rural incomes continued to improve as a result of the exchange rate policy which has attempted to maintain competitiveness for the tradeable sectors through the mini-devaluation scheme in the presence of the inflationary process of the last few years. Table 1 also confirms the large fall in real per capita incomes for the urban population, particularly Quito and the Sierra.

The discovery of oil was significant in turning the Ecuadorean economy from a relatively closed economy to a more open economy with oil becoming the dominant export. The oil revenues were used to finance a higher level of imports to be used both as consumption goods as well as investment goods. Ecuador continued to experience large and growing current account deficits in spite of the oil earnings. The deficits have been financed with international borrowing. Oil had two major impacts on trade performance, 1) it stimulated a dependence on imports and 2) facilitated Ecuador's ability to borrow in international markets. While Ecuador was becoming more dependant on oil, the effect of the oil boom was to deteriorate the economy's ability to produce other exports.

The deterioration of the incentives faced by traditional exports arose not only because of the effect that the petroleum boom had on the real exchange rate, but also as a continuation of the policy of promoting industrialization. The bias in favor of the manufacturing sector reached its peak at the same time that the petroleum boom reached its peak. These two were acting during a period of fixed exchange rates. The conditions that these three interacting processes generated became unsustainable when the oil market collapsed in 1981, and in 1982 with the onset of the international debt crisis. Ecuador was forced to reverse its exchange rate policy in 1982, but it also intervened more directly on trade through non-tariff means such as quantitative restrictions and non-tariff barriers. The turn towards a more flexible exchange rate policy improved its intersectoral structure of incentives in favor of agriculture, and within

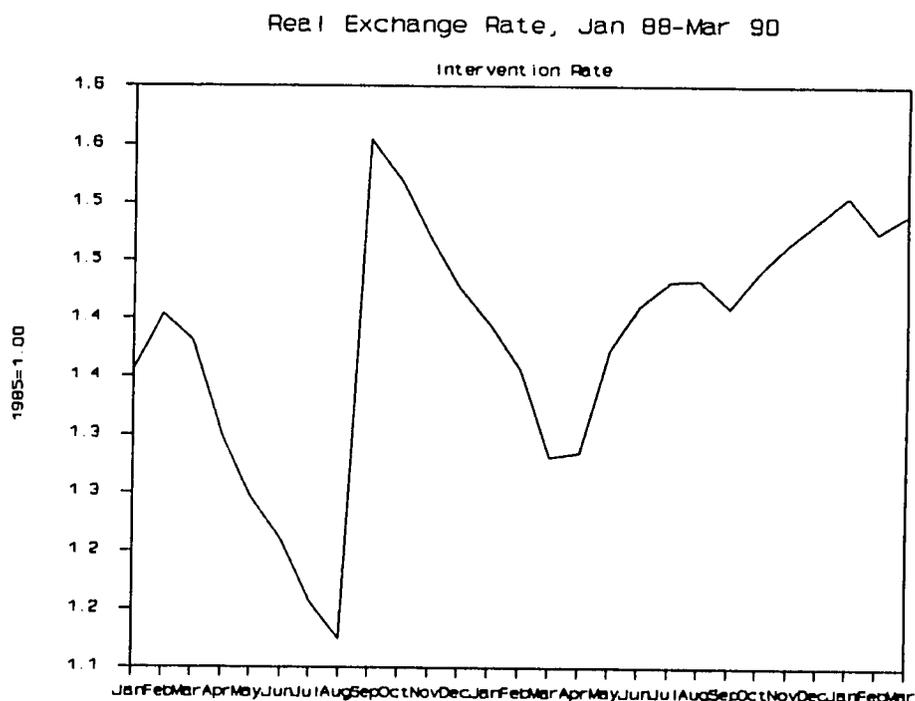
agriculture surprisingly tended to favor highland agriculture more than the rest of the agricultural sector. As a result, the manufacturing sector stagnated but agriculture responded very effectively to the improved incentives. Much of the legal and institutional apparatus that favors manufacturing remains in place; this means greater devaluations are necessary to maintain competitiveness of exports, particularly in a period of high inflation.

There have been expressions of concern by exporters that the recent bouts of high inflation have eroded the real exchange rate, and that further devaluations are needed to maintain or improve the competitiveness of their products. Figure 12 presents a graph of the central bank's intervention exchange rate for exporters; the index expresses the intervention exchange rate in purchasing power (adjusted for inflation) terms relative to the United States dollar for each month since January 1988 to March 1990¹³. The graph indicates two important facts: one, that it is very difficult to maintain a stable exchange rate in periods of high inflation, if a crawling peg mechanism is used, and two, that in spite of that difficulty the authorities have, on trend, maintained or improved the "competitiveness" of the intervention rate, particularly the Borja administration since September 1988. It must be emphasized, however, that even if the trend values seem appropriate, that the erratic movements in the real exchange rate make trade in Ecuador an extremely risky business, particularly in light of the complicated regulatory apparatus for trade. For example, a currency speculator could have achieved a forty percent annual return if the exchange rate movements had been anticipated during 1989. Alternatively, exporters could have suffered losses of the same magnitude. The point is not that the levels achieved by the authorities are correct, but that the managed regime is intrinsically risky for most participants in the exchange market.

¹³ A trade weighted measure of the real exchange rate was also computed by taking into account the top twelve trading partners for Ecuador. The trade weighted real exchange rate is almost identical to the measure presented in the figure because trade with the United States dominates all others combined and many of the other trading partners have exchange regimes that move with the dollar. It is, therefore, better to use the dollar measure of the real exchange rate and relative inflation between the U.S. and Ecuador because it can be calculated with data that are readily available.

The Borja administration inherited a severely distorted exchange market from its predecessors; not only had the "exporters' dollar" lost value, as seen in the graph, but there was almost a 100% premium between the export dollar and the open currency market. The current authorities have reduced this premium to a small fraction. The management of the exchange rate system is aggravated by the persistent inflation, and its uncertain nature is a disincentive to exports.

Figure 12



Today, there is clear evidence that the Ecuadorean economy has the ability to respond to price incentives, but severe distortions remain in the economy. Those distortions related to effective protection of the manufacturing sector mean that Ecuador has a significant way yet to go in moving towards a more open and neutral structure of incentives. The proposed trade reform will correct some of the distortions in product markets, but significant rigidities will remain in the labor and financial markets. All these and the persistent inflation add significant riskiness to production and trade in Ecuador, particularly when international

financial markets offer higher rewards to flight capital than can be earned in all but the most profitable productive and trading activities. (Connally, 1990).

3.5 Operational Problems in Exporting from Ecuador.

The administrative transactions that must be undertaken to export are "excessive, unnecessary and onerous"¹⁴. These difficulties begin with the process for registration of an exporting enterprise and extend throughout all of the steps of obtaining licenses, making export declarations, and obtaining timely inspections of shipments. In order to export any kind of product from Ecuador, an official permit issued by the Central Bank has to be obtained. This simple statement is far more complicated than what it appears to be. The first step is to determine the physical quantity of the goods to be exported and the dollar value of such exportation. One has to request a permit to export "so many" boxes of flowers or "so many" pounds or tons of a specific seafood within "so many" days. In the case that this exportation is going to be paid by a letter of credit, in which the dollar amount is predetermined, the exporter has to deposit the equivalent of 100% value of the export or present a bank guarantee. If the product is exported on consignment (typical with flowers) the Central Bank determines the dollar value of the exportation according to prices set in the international markets, and the exporter has to follow the procedure outlined in the case of a letter of credit.

Regardless of which commodity is being exported, the exporter has to fill an innumerable number of different legal documents that have to be presented to a wide variety of governmental authorities for their respective seal of approval. These different authorities are located in different buildings, and in certain cases, an exporter is forced to travel in person to present a certain document at a give office, because the city in which he is located does not have a branch of that particular government agency. This is a very common problem for exporters that reside anywhere but Quito or Guayaquil.

A time factor plays a key role in securing these permits. The permits are not issued for an indefinite period of time but only for a given exportation that is supposed to take place

¹⁴ FONAPRE/MICEI, "Comercio Exterior Ecuatoriano: Instituciones y Politicas". 1984

on a given date. Should one of the many government agencies involved delay their procedures and the paper work is not ready before the exportation takes place, the exporter will undoubtedly be faced with a stiff fine which he has no alternative but to pay, even if the delay was not his fault. Should the delay be due to an error on the side of the exporter, the fines and penalties are even higher. This leaves no alternative to the exporter but to "work out" something with the particular government official. The regulatory process for exports is lengthy and cumbersome, some entrepreneurs interviewed for this study stated that when new rules are announced these are presented as simplifications, but that frequently they are nothing more than changing one set of impediments for another. On occasion new rules are heaped on top of old ones and the two sets of rules are mutually inconsistent. These situations create the need for informal arrangements that add to cost and risk. During the first twelve months of the Borja administration there were twelve major rule changes that related to trade¹⁵.

Certain government officials believe that the exporters of non-traditional goods participate, willingly, in a double invoicing of their goods, and that a percentage of the funds to be collected by the exporter is left in banks overseas for the purpose of avoiding local taxes or as a Ledge against domestic risks. No single exporter openly agrees with this, yet they indicated that because inflation runs at a faster pace than the devaluation of the currency, "sometimes" they had no alternative other than recurring to non-orthodox methods to make up for the losses that were incurred as a result of the inflation in the country, or the fines and taxes that they were forced to pay.

The rules and regulations that apply to non-traditional exports are old, archaic and in many cases obsolete. They were designed to regulate the exportation of traditional commodities, and lack the flexibility needed for the new commodities being considered for export. Transportation bottlenecks create a serious problem, particularly those commodities requiring aircraft. The seafood items that are shipped by sea have a slight advantage, because ocean freight service is more regular and the product is packed in refrigerated containers in which in the event of any delay, they are safe. In the case of flowers, which is very new

¹⁵ "Persisten restricciones a las importaciones". El Telegrafo, Guayaquil 8 Oct. 1989.

exportation in Ecuador, to secure space in an airplane heading to the US or Europe is an adventure in itself. It is a practice of several flower exporters to have an employee at the airport just to make sure that the flowers get on board. The fact that space has been reserved does not guarantee that the product will get on board because of the shortage of space and bribes that are paid by competitors.

Most exporters believe that the government cannot cope with the needs of the exporters, and that is not doing anything significant to help them. To them, it seems that the government is working against them. The government realizes that it needs the dollars that are generated by these exports, but still makes life very difficult for the exporters.

The government should take the time to educate its officials to avoid misunderstandings or personal interpretations of the law. The rules and regulations are pretty well spelled out, but there are so many, that very few people within the government know the exact procedure to be followed. It would help if the different industries, flowers, fruits, seafood, would have a "Ventanilla Unica," a single place to process all their paperwork. This would definitely simplify the procedure and would shorten the time used in securing the required permits, and it would also reduce the bureaucracy involved in these procedures.

Other problems relate to a highly regulated transport system. Laws are in place which seek to promote Ecuadorean transporters; these involve cargo preference regulations that require reciprocity between foreign and national transporters. This reduces choices of transport media and affects costs and timeliness. Furthermore, the state plays a dominant role in the international transport system; it owns airlines and seagoing shipping companies. These two factors have contributed to a retarded development of service organizations to support export oriented activities. Without private sector competition in these areas there exists little incentive to operate at low costs; either real costs are made higher or services are inadequate.

Domestic price controls on basic consumption items and the anti-speculation provisions of the "Law for Control of Prices and Quality" prevent the development of competitive markets within the domestic economy. This means that services in support of trading are not

allowed to develop efficiently. For example, the domestic land transport system is technically inefficient, as is the domestic warehousing system, because the transportation of and storage of commercial quantities of basic commodities can be arbitrarily determined to represent speculation. Any police agent can arrest and sanction a so called speculator. The trucking fleet and the private storage system is rustic at best. The lack of modern and efficient support services make domestic and international trade more costly and risky.

Domestic policies also retard the development of an outward oriented entrepreneurial philosophy. In the modern sector many prices continue to be set by compacts between producers and the economic authorities. Some of the commodities whose prices are thus set include vegetable oils for human consumption, cement, sugar, rice, and others. The official interventions make these markets very unstable as inflation erodes away each succeeding compact. In the early stages this induces "smuggling" to Colombia and Peru and producers complain about unfair competition. Later they smuggle out of Ecuador, when as a result of inflation the controlled prices fall below the prices in bordering countries. The same happens in Peru. Trade flows between these two countries are more a response to each country's distortions than to genuine comparative advantage in either country.

4.0 POTENTIAL EFFECTS FROM TRADE LIBERALIZATION.

In the last two years the debates on economic policies for Ecuador have abandoned the notion of whether or not an inward oriented policy should be pursued and have moved to discussions about the means, extent and speed with which Ecuador should open itself to international market forces. A gradual strategy is being pursued by the current authorities in the context of intentions to achieve broad based flexibility in many aspects of the economy.

The present government has established a fundamental reform of the tax system. A trade reform law has been passed by congress, as described earlier in this report, and there is the expressed desire to create greater flexibility in capital and labor markets. In the labor market, the recently passed law that enables in-bond manufacturing to be undertaken in Ecuador will provide opportunities for demonstrating that more flexibility in the labor market can lead to improved incomes and employment. Some reforms of the financial sector are proceeding, but these markets continue to operate with a high dependence on the role of the central bank and the willingness of the government to absorb financial risks for some favorably situated economic agents. (Youngblood et al, 1990). The accomplishments to date in the area of economic reform have been substantial, but significant rigidities remain in the goods markets, and these are disincentives for the development of internationally and domestically competitive productive sectors. Some of the motivations for a gradual pace of reform on trade policy would be concerns for government revenues, concerns for employment and for the collapse of formerly protected industries. These topics will be considered in the remaining parts of this section.

The new tax law was passed by the congress in late 1989, and the reforms are in place as of January, 1990. The tax law lays the foundation for significant reforms in the trade regime and in capital markets. The tax law is progressive, and it removed many low income persons from the tax roles. The tax reforms should also simplify fiscal administration, and, in principle, the new rules are neutral with respect to corporate and personal earnings for the higher income levels. Imbedded in the tax reform is the potential for a fundamental reform of the industrial promotion apparatus that has so significantly increased effective protection to

the industrial sector. If the tax exoneration and rebate provisions of the promotion laws are allowed to die, so that the new tax law works as intended, a significant portion of the trade distorting policies will have been removed.

The tax reform should also lessen the dependence of the government on trade taxes, because income and consumption will become the major part of the tax base. This should enable a more neutral and transparent tariff policy to be used. At the present time trade taxes represent about half of the non-oil revenues of government; the tariff structure calls for an average tariff of nearly 80%, but collected tariffs are less than 15% of the value of imports. This in itself reveals the complexity of the present trade regime in that the majority of imports are exonerated, yet any transaction faces the potential of high tariffs. This structure creates the need for lobbying and other actions to seek relief from the tariffs and the trade restrictions. While the chances of obtaining relief are obviously high, the required transactions are a cost in themselves. These latter costs provide little social benefit, and they erode part or all of the private gains from exoneration. A more neutral tariff structure could produce adequate revenues for government and eliminate transactions costs, and thus, reduce the incentive for smuggling and other informal and extralegal transactions that are currently required.

4.1 Employment and Output Effects of Trade Reform.

Concerns for employment losses in the manufacturing sector and the fear that many firms would collapse are fundamental to the gradual process that is being pursued in the trade reform strategy. These concerns are valid concerns because adjustment is not costless. The ostensible reason for a go slow policy of adjustment is that it enables the affected enterprises and persons to prepare for the new economic conditions. Alternatively, it means that the benefits of the adjustment are postponed for those persons and enterprises that stand to gain from changes, but are being punished currently.

This section presents the results of simulation analyses which calculate the production, employment, income and price effects of reducing protection to the industrial sector. The analyses were made with an adaptation of a model developed by Youngblood, et al, (1989)

for El Salvador. The model was calibrated for Ecuador with data from the national accounts and with econometric estimates presented in Scobie et al, (1988) and from analyses prepared for the World Bank's industrial sector mission in 1989/90.

The simulation analyses used estimates of the trade incidence parameter developed by Dominique Hachette for the World Bank and by Scobie at Sigma One Corporation, these estimates are used to calculate the changes in real inter-sectoral prices that would result from reductions in the equivalent tariff structure which results from the industrial protection policy in Ecuador. Alternative levels of reduction of the equivalent tariff are considered as approximations to the stages of implementation of the trade reform that is currently underway.

The changes in real prices are then used to compute the output, employment and wage effects in the tradeable sectors (agriculture and industry). The responsiveness of the economy is synthesized with econometric estimates of the industrial sectors' production functions which were developed for the World Bank industrial study. An elasticity of substitution of 0.5 is used for the industrial sector; the agricultural sector is assumed to be one-half as responsive as industry, and the economy is assumed to have an overall constant elasticity of substitution (σ) equal to one. The above parameters and assumptions also provide data for the demand for labor in each sector; the partial sectoral elasticities of substitution were used to synthesize labor demand functions for each sector. Labor is assumed to be plentiful at the wage that would result from the shifts in the schedules for labor demand in each sector. Agriculture and the urban informal sector are assumed to absorb the labor not absorbed by the manufacturing sector. Table 2 presents the results of the simulation analysis.

Table 2 presents three scenarios for reduction in the nominal protection to industry as represented by the tariff equivalent of all the trade interventions. The analysis presumes that the exchange rate policy will be consistent with the required real devaluations implied by the removal of nominal protection to the import competing goods. One scenario represents a mild adjustment to protection and the extreme case removes about half of the effective protection faced by the industrial sector; an intermediate case is also presented in table 2.

Table 2. Simulated Employment and Production Effects of Trade Reforms
Percentage Reduction in the Tariff Equivalent of Industrial Protection

EFFECTS (proportions)	10%	25%	50%
Production:			
Industrial output	-0.005	-0.013	-0.035
Agricultural output	0.014	0.040	0.104
Employment by Sectors			
Industrial	0.003	0.009	0.002
Agriculture	0.01	0.03	0.09
Wages			
Industrial	-0.02	-0.05	-0.14
Informal Sectors	0.01	0.04	0.13
Total Wage Incomes			
Industrial	-0.01	-0.04	-0.11
Informal Sectors	0.03	0.09	0.22
RELATIVE PRICES			
Manufactured goods	-0.03	-0.08	-0.20
Agricultural products	0.08	0.23	0.60

The analysis suggests that under all scenarios, the fall in industrial output would be small in value added terms. This would suggest that most firms could easily adapt, particularly those that would be able to export some of their products. Agricultural output would rise proportionately more than the fall in manufacturing output so that the overall output of tradeables would expand. The mild case would be barely perceptible in terms of aggregate output; in the case of the other scenarios the output of tradeables would be two to six percent higher than it would be in the absence of the trade reform.

The removal of protection to the industrial sector implies a fall in the wages of labor employed in the sector. If the current inflationary process is exploited to allow real wages in the industrial sector to fall as required, employment in the industrial sector would not fall and employment in the rest of the economy would rise modestly, as would wages in the informal sector. The net effect of all this is that in the intermediate case, the wage incomes of industrial workers would fall by approximately 4% in real terms and the wage incomes in the informal sector would rise by approximately 9%. The change in relative prices would be

significant; in the intermediate case manufactured goods' prices would fall by 8% and agricultural prices would rise by more than 20%. These results are a direct consequence of the "incidence" effect of industrial protection on the real exchange rate and the prices of agriculture. The taxing effect on agriculture that arises from tariff protection to industry is disproportionately high.

It is important to note that the change in relative prices between manufactured goods and agricultural products will produce real income and consumption effects for the households of Ecuador. About half of the real income gains in the informal sector would be eroded by higher food prices. Some gain would result from lower prices of manufactured goods. The overall losers of the reform would be the persons currently employed in the manufacturing sector; the real income effects of the rise in food prices would further reduce their incomes beyond the fall in their real wages. The industrial workers could experience a fall of as much as a third of their purchasing power. The rest of the workers would be better off but the industrial workers would be considerable worse off.

This latter consequence would not go unopposed. The industrial sector is unionized and they would resist the fall in incomes. This dilemma could be avoided if the industrial sector could respond to the challenges of competing in international markets. It is important to note, however, that a significant part of this required fall in real wages for the industrial sector may have already occurred. (See Hachette and Franklin, 1990).

Sadoulet and Roland-Holst (1989) addressed the same issues with an intrinsically different analytical apparatus as part of their contribution to the World Bank Industrial Sector study. They used a computable general equilibrium model calibrated to 1987 conditions for Ecuador. Their methods are more disaggregated than the above work at Sigma One Corporation.

Their general equilibrium model analyzes the removal of tariffs equal to the current ad valorem collections e.g. less than 15%, as such it represents another mild to intermediate adjustment to trade policy in Ecuador. They too assumed that the real exchange rate is

allowed to accommodate to the tariff reductions. Their results indicate that trade liberalization for Ecuador could lead to a rise in three to five percentage points in GDP, a two to seven percent rise in aggregate employment and importantly about a 15% rise in the profit rate of enterprises, on an economy wide basis. Concomitant to these changes in domestic variables would be an improvement in the trade balance as exports would rise by more than the percentage rise in imports. Consumption would rise overall by five to six percent.

Their results are equivalent to applying a 10% uniform tariff rate across all sectors. The industrial sectors that would contract are the mineral processing sectors (non-oil), meat and fish processing, wood furniture, paper, and machinery manufacturing. Expansion would occur in agribusiness such as food milling, food processing and textile and leather manufacturing. Their major conclusion is that the principal effects of the protective policies have been macroeconomic rather than sectoral, e.g. the overall recession and the persistent overvaluation of the currency. The discretionary effect of quantitative restrictions and exonerations seems to be firm specific. Their analysis also studied which sectors would be likely to respond with export expansion, as a result of the liberalization of trade. Their results state that Ecuador has "generally an economy favorably disposed to export promotion in most agricultural and industrial activities... import substitution (ISI) does not appear advisable in most industrial sectors and domestic resources would be better devoted to earning rather than conserving foreign exchange."

4.2 Liberalization Experiences of Other Latin American Countries.

During the 1980s most Latin American countries were faced with the need to liberalize their economies, particularly regarding their international commercial policies. Some have proceeded rather rapidly and consistently on the path towards more open economies, others have pursued gradual approaches and some have reversed paths, some more than once. The picture from the Americas is not clear because the process of liberalization has been generally halting. Comparisons across countries are hard to make because in each case some special factors apply which prevent broad generalizations. Nevertheless some insight into other countries' experiences with trade liberalization are useful as a backdrop for the strategy being undertaken by Ecuador.

Most countries of the region responded to the international debt crisis in the 1982-84 period by closing their economies through import barriers to stem outward flows of foreign exchange. Some like Argentina, Chile and Peru reversed earlier efforts at trade liberalization. Ecuador along with Mexico, Bolivia, Venezuela and Brazil was relatively closed at the time of the crises and responded initially with further restraints on trade, particularly through non-tariff barriers.

4.2.1 The Chilean Experience.

Chile's experience is almost always a part of any discussion on trade liberalization experiences. At the start of the crisis, Chile had been experiencing a series of stabilization and liberalization experiments which began after the overthrow of the Allende government by the military junta in 1973. To 1982, the stabilization measures had centered on exchange rate controls. On the liberalization front, price controls were removed in domestic product markets; in 1973, 94% of the items in the consumers basket were controlled, by 1980 only a third were controlled. Trade policy moved from reliance on non-tariff barriers to uniform tariffs which were then progressively reduced. The major effort at liberalization was the in the financial markets; interest rate ceilings were removed and capital was allowed to flow freely internationally. Essentially, financial intermediaries were given free rein at a rate considerably

faster than the trade policy was liberalized. In the late 70s international capital was plentiful, and the country was flooded with foreign exchange. In the presence of a rigid exchange rate policy that was being used for stabilization purposes, the capital inflows gave Chile a severe bout of "Dutch Disease". The resulting overvaluation of the exchange rate caused a recession for the producers of tradables.

At the start of the debt crisis Chile responded similarly to Ecuador; it devalued its currency and increased its uniform tariff. Subsequent to the debt crisis Chile renewed its process of liberalization and cut its uniform tariff from 35% to 15%. This trade reform and a unified and floating exchange rate system have fueled an exporting boom in non-traditional products during the latter half of the 80s.

The recession that Chile experienced and the restructuring of ownership of private enterprise that ensued with the financial liberalization have been criticized by many as regressive with respect to the distribution of income. Indeed there was high formal unemployment (in excess of 20% in 1982-83) and a decline in incomes during the late seventies up to the mid-eighties, particularly in the manufacturing sector that lost its privileged position. Since 1982, incomes in Chile have risen at an average rate of 2% per year on an economy wide basis. By 1987 agricultural trade for Chile had grown to a surplus in excess of one billion US dollars, whereas in 1975 agricultural trade was in deficit by one-half billion US dollars.

The Chilean case was a learning exercise for economists. It is now understood that the sequencing of reforms matters, and that stabilization must precede liberalization. (Sachs, Fistler.) Within a liberalization strategy there is also now wide spread consensus that the goods markets must be liberalized first and then the capital markets, (Edwards.) the productive sectors must be efficient if they are going to attract capital, otherwise capital flows will reflect interest arbitrage rather than real investment opportunities.

4.2.2 The Mexican Experience.

The case of Mexico is of interest to Ecuador because Mexico also suffered from and is susceptible to "Dutch Disease" from oil revenues. Mexico is a late comer to the economic reform experiences of Latin America; until 1988, reforms in Mexico had been haltingly implemented after the 1982 crisis. In 1988, Mexico abandoned gradualism after years of inflation that exceeded 100% annually; by the end of 1988 inflation had dropped to 52% and in 1989 inflation was 20%. Inflation appears to be hovering between 10 and 15% in 1990. The restrictive fiscal and monetary policies that have been implemented have resulted in highly positive real rates of interest, and on the labor front there have been drastic falls in the wages of public sector employees. The reduction in the fiscal deficit was central to the stabilization which has also been aided with the sale of parastatal enterprises. The state run airlines have been privatized and the telephone company is up for sale. With the gains on the inflation front, Mexico has begun an ambitious trade liberalization program that is to culminate in negotiations for a free trade area with its North American neighbors. Financial sector liberalization is following on the heels of the trade liberalization, currently real interest rates are very high.

The trade liberalization has consisted of reduction of tariffs and a dismantling of the apparatus for non-tariff controls on trade. The maximum tariff has been reduced from 100% in 1982 to 20% in 1989. The average tariff has dropped from around 20% to around ten percent, and the dispersion has been reduced from 25% to around five percent. In 1982 almost all imports were subject to quantitative restrictions today less than a fourth of the importable items are subject to such non-tariff barriers. "Mexico has gone from one of the worlds's most closed economies to one of the most open"¹⁶.

Domestic markets have also been freed. For example, the domestic food marketing parastatal is being dismantled into a trading company for maize and beans; before it had a major role in retailing and in wholesale marketing for the purpose of providing subsidized

¹⁶ Dr. Jaime Serra Puche, Minister of Trade and Industry. Personal Communication. June 29, 1990.

foods. The pricing reforms have, as in the case of Ecuador, been preceded with an ambitious tax reform that is deemed to be highly successful. The system of export processing or in bond manufacturing has been extended beyond the border states to the rest of the country, and some of their products are being allowed for sale within the country on a duty free basis. These reforms of the pricing regime have also been accompanied by significant de-regulation including trucking, container shipping, seafood harvesting and production, packaging, customs agents and telecommunications. The purpose of these latter reforms is to facilitate the economy's response to the more neutral incentive policies.

The results are that formal employment is rising rapidly (8% last year), along with aggregate income which is growing at 4% per year. Domestic savings are up and market interest rates are falling although they remain highly positive at nearly 15% in real terms. Manufacturing employment has grown at a rate of 6%, and manufacturing exports have replaced oil as the main source of foreign exchange.

Further privatization is to take place rapidly. The banking system is being returned to the private sector after having been nationalized in 1982. During the period of nationalization, the banking system lent almost exclusively to the government and the parastatal sector. The number of state run enterprises has already been reduced from over 1000 to around 300.

All is not rosy, however, a large segment of the population lives in abject poverty, particularly the native Indian groups. Urban wages have fallen drastically throughout the 80s and many public sector employees have had to resort to moonlighting to maintain their income levels. The export processing zones have created a half a million new jobs, but they have placed tremendous pressure on the urban infrastructure of the northern border cities. These conditions aggravate the social stresses brought on by illegal immigration into the US and the criminality associated with the drug trade. The official unions have supported president Salinas in his moves, thus far, but there is a lot of concern for the stability of the social compact under which many of the economic reforms have been negotiated. Of course, the question must be asked in the context of where Mexico would find itself in the future, if the economic reforms had not been initiated.

5.0 A PROPOSED STRATEGY FOR INCREASED TRADE, INCOMES AND EMPLOYMENT.

A strategy for increased trade, employment, and incomes in Ecuador must address a number of interlinked issues. The most important of these are frequent changes on the rules of the game regarding economic policy. These frequent changes add uncertainty and risk to important economy wide determinants of the structure of incentives such as the real exchange rate. Furthermore, the tradition for affecting resource allocation and for attempting to compensate or stimulate specific subsectors of the economy through tariffs, subsidies, surcharges, prohibitions and administrative and institutional regulations, is a force that maintains distortions at the firm level even when the macro economic signals appear to be correct. An outward oriented economic strategy is not a matter of making the extent of intervention less severe on specific sectors, but it is more a matter of establishing a policy regime in which the threat of unexpected policy changes is no longer a risk to be faced by domestic entrepreneurs and potential international investors. The rationale for intervention is undoubtedly a belief that administrative fiat, regulation and legislation can cause resources to flow into socially desirable activities and to provide for the common good. As well intentioned as these notions are, the vast body of experiences and analysis from other regions of the world, Latin America and Ecuador itself, indicate that the truth is very distant from this, and that the interventions, as well intended as they might be, result in lower levels of output and lower levels of income, employment and consumption. One major consequence is that such policy interventions distort the distribution of income, away from low income persons to those better situated to take advantage of the system of incentives that results from policy interventions.

5.1 Issues that will affect the Success of Trade Liberalization.

Issues of importance to the performance of the Ecuadorean economy include labor market and financial market rigidities. The distortions in labor, financial and goods (trade) have interacted to cause a severe deterioration in real wages for urban dwellers in Ecuador.

Also, in Ecuador there is a concept that trade across the northern and southern borders is undesirable; exports to Colombia and Peru are viewed as detrimental to the well being of Ecuadorean consumers, and imports from these two neighbors are viewed as detrimental to Ecuadorean producers. The reality is that trade with Colombia and Peru presents one of the most profitable opportunities for improved incomes for small scale enterprises and for highland agriculture. Relatively open borders with Colombia and Peru, particularly in agricultural product markets, could help stabilize the supply and prices of food stuffs in the three countries. Given the relative smallness of Ecuador in comparison to its two larger neighbors, the gains in increased income from a larger market would significantly overshadow any possible losses to Ecuadorean producers. The trend would be for Ecuadorean products to flow into the markets of Peru and Colombia, particularly the latter, with its more advanced and developed economy. In the case of Peru, Ecuador is protected by the distances along the length of Peru, from any "unfair" competition that might arise from the economic distortions which have prevailed and are likely to continue in the Peruvian economy.

Fears are also expressed by Ecuadorean manufacturers that an explicitly open border with Colombia would flood Ecuador with lower cost and higher quality consumer goods causing economic losses to Ecuadorean industry. An alternative view is that both countries would gain from a bilateral flow of products according to market forces. The above is made particularly clear in light of the obvious response of the whole agricultural sector to the improvements in the real exchange rate which were achieved during the decade of the 80s by the policy of maintaining a competitive exchange rate. The evidence is now clear that not only were the traditional agricultural exports like bananas, coffee and cacao favored by this exchange rate regime, but that highland producers of corn, other cereals and livestock, benefited from the improved exchange rates, as did coastal producers of basic grains such as rice, hard maize and oil seeds. The evidence on this includes the improved performance on the agricultural sector as a whole, the improvement in incomes in the highlands for highland agricultural producers, and in the case of traditional exports, the tremendous response of coffee, in spite of the fact, that international prices were falling throughout most of the period. The improved exchange rate policy created opportunities for Ecuadorean agriculture

commodities to flow to Colombia because Ecuadorean farmers were more efficient than Colombian farmers, on economic although not on technical grounds. Perhaps this experience holds a lesson for industry.

Additionally, in the conduct of Ecuadorian economic policy, the heavy dependence of the economy on primary commodities and the vagaries of world prices for those commodities is used as an argument for trade controls and protection. There is little that Ecuador can do to protect itself from price fluctuations in world markets, other than to diversify itself, so as to not be buffeted by movements in the price of a few commodities. While it is important to diversify Ecuadorian exports away from the traditional exports, this will be a gradual and slow process and will represent small gains to the economy at best, given the low participation of non-traditional products and manufactured goods in the export mix for Ecuador. Past policies did make Ecuadorean markets more stable than their international counterparts, but at a high cost in foregone income. In light of this, it would seem that continued administrative and policy intervention to try to foment particular sectors, would be less important than an overall structure of incentives that was relatively neutral and allow market forces to determine the mix of output and consumption for the Ecuadorean economy.

Another important point is the issue of which market is the one of relevance for Ecuador, the Andean Pact, North America, Latin America, Europe and/or the Pacific Basin. At the present time the U.S. is Ecuador's principal trading partner; it absorbs two thirds to three fourths of Ecuadorean exports, and provides from a fourth to a third of Ecuadorean imports. Thus, while regional integration and the attention to other markets is important in a process of diversification and an outward oriented growth strategy, it should focus on the requirements of the U.S. market for Ecuadorean traditional and non-traditional products. The U.S. market presents the best near term strategy for the improvement of exports for Ecuador. On this matter, there is concern that Ecuador is dependent on the United States and subject to the whims of its large corporations in establishing trade relationships¹⁷. This concern can only be ameliorated if Ecuador becomes more competitive, not less. If Ecuador continues to

¹⁷ Oswaldo, Dávila A., Op. Cit.

discriminate against exporting activities, the United States will remain its principal market. If it wishes a broader clientele, its costs of production and the quality of its output will have to improve to make its exports more competitive in the more distant European and Pacific markets. The regional market in the Andean zone and in Latin America will remain relatively small, and it too will become more competitive. The best option to reduce dependence on the U.S. market is to become more competitive so as to increase the scope for choice.

Ecuadorean exporters face a major challenge of quality and productivity. Low productivity and low quality are a tradition in Ecuadorean exports, for example bananas, which are produced at lower yields and are also of lower quality than bananas from other countries, as such they suffer discounts in international markets. The same is true in cocoa, coffee, and more recently in shrimp. In the case of each of these Ecuador has the potential to be a high productivity and quality producer, but it is not that now and in fact, has allowed its reputation with respect to quality to deteriorate. The case of shrimp is illustrative, less than 5 years ago Ecuadorean shrimp represented the premier quality in the world market, today Ecuadorean shrimp sells at a 25 to 30% discount relative to output from Asia and Central America, because the quality of Ecuadorean shrimp has been allowed to deteriorate. These factors of productivity and quality are in part an issue for entrepreneurial initiative at the microeconomic level, i.e. the individual producers and traders. It is possible to argue however that the erratic policy frameworks that have existed in Ecuador over the last 15 to 20 years, cause individual entrepreneurs to view the economic conditions as uncertain and are therefore unwilling to invest the necessary resources to achieve and maintain higher levels of quality which today's competitive world markets require. For example, the problem with shrimp centers on the use of extensive and extractive technologies for production. Natural larvae have become scarce as the industry has destroyed the species' habitat. More intensive and better capitalized enterprises could have prevented some of the deterioration of quality. The question arises as to whether or not the erratic treatment of policy has contributed to the nature of the shrimp farming enterprises.

The pervasive involvement of government in service sectors, such as the transport sector, and the multiple regulations and bureaucratic requirements that must be met to trade

across Ecuadorean borders has prevented the development of specialized service industries that would support trade. For example, the services of expeditors, sales concessionaires, brokers, and customs brokers, have tended to be retarded because the costs and risks of entry are high. Only the larger scale enterprises are willing and able to invest in developing the talents and capacity to learn the rules of the game. These rules and the pervasive role of government create barriers to entry to smaller firms and prevent the evolution of new entrepreneurs.

On the matter of ownership by the state and of participation by parastatal institutions in private sector firms, when the level of government ownership and investment is high the decisions of the boards of directors are frequently determined by the political interests of their constituents, rather than by the profit making interest of the enterprise. As a result, firms with strong government participation are slow in responding to evolving market opportunities.

The arguments against a more rapid process of trade liberalization for Ecuador, are based on fears that trade liberalization will lead to a loss of employment in the protected sectors and that the income of the national industries and their employees needs to be protected. The reasons given for protection and intervention are that factors of production have slow mobility, that labor needs to be trained for the new activities, and that new investment is required, and that, therefore, the process of dismantling trade restrictions should go slowly. The evidence provided by the agricultural sector response to the exchange rate policy, in spite of the many persistent interventions and domestic price controls, is proof that even very traditional and very low skilled workers can respond to improved incentives. On the other hand, the industrial sector's inability to absorb labor, and its rapid uptake of capital equipment and capital intensive technologies is its only counter argument against the factor rigidity argument for not undertaking a more ambitious trade liberalization strategy.

There is also a fear that when the barriers to trade, particularly the barriers to imports are removed, that whole sectors will collapse. While it is undoubtedly true that certain firms may collapse, because many of these firms have internalized their economic rents into costs and they would collapse under competitive pressures. Many others would rapidly adjust to the international competitive pressures by reducing costs through increasing their scale of

operations to serve a larger international market. The fear of a collapse of many firms is unfounded. A recent study for the World Bank, for example, suggests that a number of agroindustrial sectors are naturally protected by distances and by Ecuador's natural resource and labor advantages, these include agro-industries that process traditional exports such as bananas, coffee, cacao, livestock, forestry, and fisheries products. Competing imports would not enter and all these sectors would be highly competitive for export. In fact, only a small number of subsectors would find themselves at a comparative disadvantage to international products, these are the chemical, machinery, and automotive sectors. An issue that must be faced here is that there will be a temptation to continue to protect these few sectors, or to subsidize them, because they represent strategic sectors. The cost to the economy must be measured in terms that go beyond the direct subsidies and price effects that are involved in protecting the so called strategic sectors. The analysis needs to focus on what a continued system of protection implies for the performance of the rest of the Ecuadorean economy. If these sectors are to continue to be privileged, a policy of direct subsidies would be more transparent and efficient than continuing to distort the whole economy for the benefit of a few enterprises.

As for the argument that Ecuadorean products cannot compete with imports from other countries in the region, the evidence from the European community would certainly present a counter example to this, in that interindustry trade has evolved and industries have not collapsed. There has not been specialization on a country by country basis, for example, Italy, Germany, France all continue to produce electronic equipment and other goods, and the brands manufactured in each of these countries have established niches not only in their own country, but in the neighboring countries through brand identity, advertising and general marketing strategies.

In contrast to these various risks that are seen for a process of trade liberalization, one has to look at what the three to four decade history of industrial protection has left for Latin America and Ecuador. The economies of Latin America are more dependent on imports as a result of the import substitution industrialization strategy than they would be under more neutral incentives; 65% of Ecuador's imports are intermediate inputs for the industrial sector.

The industrialization strategy has biased the use of resources away from plentiful labor, towards capital intensive goods and technologies. The national industrial sector has become accustomed to operating at inefficient levels and to depend on subsidies and support from the public sector. And because the resources are allocated through administrative and bureaucratic fiat rather than through the workings of the market place, wealth has tended to accumulate in the hands of those who are able to manipulate the administrative and regulatory process in their favor.

Another vital issue to be confronted by Ecuadorian economic authorities, in the attempt to move to a more outward oriented strategy, is to avoid the temptation or pressures to move from the inward oriented industrialization strategy that has generated the inefficient industrial sector (and taxed the agricultural sector) to a strategy of policy interventions and subsidies to promote exports. For example, there have been a number of calls for expansion of the system of negotiable tax credit certificates (CAT) as a means for subsidizing non-traditional exports¹⁸. An export promotion policy based on subsidies would be as damaging to Ecuador, if not more so, than the past import substitution industrialization strategy. An outward oriented strategy and an export promotion strategy are not the same. An export promotion strategy implies that exporting firms would be implicitly or explicitly subsidized, causing resources to be used inefficiently. To the extent that resources are used inefficiently, i.e. wasted, these resources can not be used for generating income and employment. An outward oriented strategy does not mean promotion of exports, and control of imports, what it means is neutrality in the structure of incentives to allow scarce resources to flow into the most productive use as determined by international market conditions and domestic resource availabilities. The efficient use of resources will produce higher levels of income and create the incentives for investment and entrepreneurship through the use of Ecuador's relatively abundant resources.

¹⁸ "Solicitan el CAT para las manufacturas" Hoy Mar. 8,1990. CAT is a certificate of tax credit based on an ad valorem rate for non-traditional exports, these provide an analogous distorting effect to trade as do tariffs that attempt to protect domestic production.

The arguments against trade liberalization are based on a notion that the supply side relationships are fixed, that is to say that individual entrepreneurs, producers, and consumers do not respond to prices, and there is a limited possibility of substituting one good for another in response to changing prices. The evidence from throughout the world is now clear, that this is not so; and the evidence in Ecuador is clear as well, the response of agriculture to the exchange rate regime of the 80s is positive evidence that Ecuador's economy can be flexible. Ironically the response of the industrial sector to its level of subsidization in the 1970s is also an argument that entrepreneurship and resources will move to take advantage of incentives. The question is whether the incentives are provided through administrative fiat or whether they are provided through the pricing mechanism. A World Bank study cited in *The Economist*, from the Bank's "World Development Report for 1987", compares the economic growth experience of inward oriented, versus outward oriented countries, and arrived at the conclusion: *Overall the growth and per capita incomes was highest in the strongly outward looking economies and lowest in the strongest inward looking economies. The failure of strong inward orientation to promote domestic manufacturing is particularly striking, because the whole point of looking inward for the countries that did so was to industrialize faster. The moderate outward lookers performed better than the moderate inward lookers.*

5.2 Elements of a Trade for Development Strategy.

Ecuador needs to improve its ability to trade domestically as well as internationally. The principal reasons for improving the competitiveness of the domestic economy are that under the erratic policy regimes of the past it made itself more susceptible, rather than less, to the whims of international markets and the authorities' efforts to manage boom and bust cycles have prevented the poor people of Ecuador from improving their lot. The policies of Ecuador's modern times have misused scarce resources and prevented the full and adequate use of the country's abundant resources. Much of the gains from commodity windfalls have been consumed rather than invested, and the gains have been captured by the better off with access to the privileges created by government fiat through successive turns at leadership.

The millions of small farmers, petty traders, and other small scale entrepreneurs show each day that they can react to positive opportunities. The system of policy and direct interventions affects these groups perversely because they don't have access to subsidized credit, to commercial protection, to services or to international markets for their scarce (if any) savings. They are further punished by inflation that taxes their cash holdings and meager financial savings. They are hurt because they must pay artificially high prices for the manufactured goods they obtain. Their enterprises are doomed to remain low scale operations because many of the laws and regulations that are intended to protect them, actually cause them harm. They are the ones that get arrested for storing too many lemons or too much rice. Perversely, laws and regulations that are intended to help the poor, hurt them by excluding them from the economic mainstream in production, commerce, employment and in the country's poorly developed financial markets. Ecuador needs a policy regime that allows people to trade and to choose their techniques, inputs, products, marketing channels, and their pattern of savings and consumption according to the rules of efficiency.

A strategy for increased trade must begin by improving the opportunities for internal trade, and by achieving price stability. Goods must be allowed to flow across borders as determined by the ability to sell abroad at a profit and buy internationally at a savings. Financial resources move across borders fast and whether or not the government wills it. Financial system rigidities can rob the nation of its investment opportunities. Through an improved environment for trading in product and factor markets, the poor (and the rich) will have greater opportunities to choose; increased scope for choice is the essence of development. Hence, a trading strategy is a strategy for development for Ecuador.

The essential elements of such a strategy include:

1. Revision of the law for the control of prices and quality to:
 - a) Remove the anti-speculation provisions and the role of the police in its administration.
 - b) Anti-trust concerns in product markets can be addressed through greater openness to trade, particularly with Colombia.

2. Announce an open borders policy with Colombia and Ecuador for agricultural and food commodities. Even if Peruvian products were to flood Ecuador, they can be sold at a profit to Colombia. This policy will iron out the wide swings in domestic commodity prices and promote food security.
3. Reduce inflation by forcing the parastatal institutions to operate on a basis that recovers real costs. This will reduce the state's role in financial markets and force up the prices of services.
4. Move rapidly toward a uniform tariff for all trade and remove non-tariff restrictions. Even a relatively average high tariff of say 25% would provide greater neutrality, and high protection while facilitating the response of other sectors to the reduction in effective protection to industry. Announce and follow a set plan for reduction of the uniform tariff.
5. Wherever there is genuine concern for the collapse of an industry and it is judged to be in the national interest that it should not collapse, support the industry with direct payments from government but force them to compete in the product market.
6. The export production zone concept has been approved by law. Extend the rules to every plant and enterprise that can attract clients, investment and materials. Ecuador as a late starter in the "maquila" business will have to compete with low skilled labor and low technologies, it should not expect a boom.
7. Promote the development of a philosophy of quality production, in all sectors, by funding training of private sector personnel in quality control techniques and in the use of grades and standards.
8. Allow the financial markets to achieve positive real interest rates through market transactions. Give some breathing room to the banking system by removing the requirement that they must subsidize the development banks.
9. Accelerate the announced reforms in the stock exchange so as to deepen the market and reduce the dominance of public sector institutions.
10. Promote greater competition in the transport system for all modes of transport.
11. Move rapidly towards a "one step" system of trading permits and towards a unified foreign exchange market.

12. Continue the process of tax reform toward one primarily based on a value added tax to achieve neutrality of incidence of the taxes.

BIBLIOGRAPHY

- Acosta, A. et al, 1986. *Ecuador: Petróleo y Crisis Económica*. 237pp. Quito, Ecuador; Instituto Latinoamericano de Investigaciones Sociales, ILDIS.
- Banco Central del Ecuador. 1989. *Cuentas Nacionales del Ecuador* Vol. No.12, 334pp.
- Ecuador 1989-90 Country Profile*. Annual Survey of Political and Economic Background. The Economist Intelligence Unit Limited. United Kingdom.
- DeJanvry, A, Fargeix, A., E. Sadoulet. May, 1990. *Economic, Welfare, and Political Consequences of Stabilization Policies: An Analysis for Ecuador and Latin America*. University of California at Berkeley. Monograph prepared for the Development Centre Organisation for Economic Co-operation and Development. Paris.
- DeJanvry, A, Fargeix, A., E. Sadoulet. June, 1990. *Adjustment with Political Stability and Equity: The Ecuadorean Experience and Some Alternative Options*. University of California at Berkeley.
- Emanuel, J.C., July, 1986. *Política Económica para Enfrentar la Crisis del Petróleo*. Banco Central del Ecuador. Conferencia Dictada en el Colegio de Economistas de Quito, Ecuador.
- Franklin, D.L. and A. Valdés. May, 1988. *The Effect of Trade Policies on Relative Prices and Households' Real Incomes and Food Consumption Patterns: (Peru, 1964-1982)*. Paper presented at International Food Policy Research Institute Seminar.
- Hachette, D., and D. Franklin. May, 1990. *Employment and Incomes in Ecuador: A Macroeconomic Context*. Prepared for The United States Agency for International Development Mission to Ecuador. Research Triangle Park, N.C.: Sigma One Corporation.
- Helpman, E., June, 1990. *Monopolistic Competition in Trade Theory*. Department of Economics, Princeton, New Jersey. No.16.
- Keeler, A., Scobie, G., and D. Greene. May, 1988. *Exchange Rates and Foreign Trade Policies in Ecuador: 1960-1985*. Prepared for: Policy Analysis Unit Ministry of Agriculture under the USAID/Ecuador Agricultural Sector Reorientation Project. Research Triangle Park, N.C: Sigma One Corporation.
- Laird, S. and J. Nogués, *Trade Policies and the Highly Indebted Countries*. The World Bank Economic Review. Vol. 3, No. 2: 241-261.
- Reynolds C.W. June, 1990. Dissertation on: *Obstacles to Competition and Entrepreneurship in Andean Countries: Implications for Regional Integration from the Ecuador Case*. Quito, Ecuador.

- Sadoulet, E., and W. Roland-Holst. June, 1989. *Trade Policy, Protection, and Resource Allocation in Ecuador*. University of California at Berkeley. Report prepared for The World Bank.
- Santos, A.E., y M. Mora. *Ecuador, la Década de los Ochenta*. 114pp. Colegio de Economistas de Quito, Corporación Editora Nacional.
- Scobie, G., and V. Jardine. Dec. 1988. *Macroeconomic Policy, The Real Exchange Rate and Agricultural Growth in Ecuador*. Prepared for: USAID/Ecuador. Agricultural Sector Reorientation Project. Research Triangle Park, N.C.: Sigma One Corporation.
- Scobie, G., and V. Jardine. Dec. 1988. *Macroeconomic Policy and Agriculture in Ecuador: An Overview*. Prepared for: Policy Analysis Unit Ministry of Agriculture under the USAID/Ecuador Agricultural Sector Reorientation Project. Research Triangle Park, N.C.: Sigma One Corporation.
- Orejuela, Marcelo A., et al, 1986. *El Ecuador en la Encrucijada*. 307pp. Quito, Ecuador. Corporación Editora Nacional.
- Vos, Rob. 1987. *Industrialización, Empleo y Necesidades Básicas en el Ecuador*. 168pp. Quito, Ecuador. Corporación Editora Nacional.

Newspaper Articles:

1) Periódico "HOY", Quito, Ecuador:

- Un Ajuste al ajuste*. Marzo 7, 1990. Por: Gonzalo Maldonado.
- Minidevaluaciones suben de \$1.3 a 3,50 semanales*. Marzo 3, 1990.
- Las promesas al Banco Mundial*. Febrero 17, 1990.
- No soy Neoliberal*. Marzo 12, 1990. Por: Vicente Troya.
- El Multifacético Arancel*. Diciembre 5, 1990. Por: Gonzalo Maldonado.
- Política Cambiaria*. Mayo 14, 1990.
- Las prioridades del ajuste de Mayo de 1982*. Enero 1, 1990.
- El Retorno al Gradualismo*. Enero 1, 1990.
- El Ensayo Neoliberal*. Enero 1, 1990.
- Sin las importaciones no existe reactivación*. Marzo 15, 1990.
- Ecuador debe ingresar al GATT*. Marzo 16, 1990.
- Hurtado vs. Febres vs. Borja*. Marzo 17, 1990. Por: Gonzalo Maldonado.
- Arancel será gradual y no de shock: Gallardo*. Febrero 18, 1990.
- Adiós a la Sustitución de las Importaciones*. Febrero 16, 1990.
- Ajustes y Reformas Estructurales*. Febrero 14, 1990.
- Itinerario de la Reforma Arancelaria*. Febrero 17, 1990.
- Nuevo mecanismo para financiar exportaciones*. Junio 15, 1990.
- Reforma arancelaria está en la dirección correcta*. Junio 13, 1990.
- Arancel desarrollará la industria nacional*. Junio 13, 1990.

Política de precios administrados. Febrero 5, 1990.
Industria afrontará reto de reforma arancelaria. Abril 30, 1990.
Del Banco Mundial: estrategia de mediano plazo. Enero 16, 1990.

2) Periódico "UNIVERSO", Quito, Ecuador.

Crecimiento sostenido en precio de nuestro crudo. Mayo 13, 1990.
Avanza estructuración para el nuevo arancel. Enero 14, 1990.
Anuncian Transformación estructural de Economía. Enero 5, 1990.
Establecen controles uso de divisas para importaciones. Enero 23, 1990.
Señalan productos de prohibida exportación. Enero 26, 1990.
Estiman que nuevo Arancel procura mayor recaudación. Abril 15, 1990.
Nuevo Arancel, un golpe más al sector. Junio 15, 1990.
Ineficacia gubernamental para controlar inflación. Mayo 12, 1990. Por: Carlos Emanuel.
Contenido de las reformas a 4 leyes. Abril 24, 1990.
Alarmante la escalada de precios en Manabí. Febrero 5, 1990.

3) Periódico "EL COMERCIO", Quito, Ecuador.

Se reorientó a la Economía. Febrero 16, 1990.
Lista Reforma Arancelaria. Febrero 16, 1990.
Jouvin: Ecuador debe ingresar al GATT. Marzo 16, 1990.
Protección industrial no debe ser excesiva. Octubre 1, 1989.
Declaraciones de Pachano a El Comercio. Enero 7, 1990. Por: Jorge Ribadeneira.
Reforma Arancelaria. Enero 13, 1990.
Ajuste arancelario debe Proteger la Producción. Enero 1, 1990.
Perspectivas Petroleras. Enero 6, 1990.
Política Económica debe Continuar. Enero 5, 1990.
Discuten Mecanismos de reforma arancelaria. Enero 5, 1990.
Será el año de la Reactivación. Enero 1, 1990.
Hay que estimular la producción. Abril 2, 1990.
250.000 millones para créditos. Febrero 15, 1990.
Venta de divisas por futuras exportaciones. Marzo 9, 1990.
Créditos por 1.800 millones otorga BNF para ciclo corto. Febrero 22, 1990.
Fugan capitales. Mayo 28, 1990.
Nuevo sistema de clasificación arancelaria. Junio 15, 1990.
Arancel debe buscar desarrollo del país. Junio 19, 1990.
Preocupan reformas a la ley de fomento. Junio 10, 1990.
Preocupa a la Junta Monetaria el gasto del sector público. Junio 11, 1990.
Negativo crecimiento de préstamos. Febrero 5, 1990.
Arancel obliga a superación industrial. Junio 19, 1990.

4) Periódico "EL TELEGRAFO", Quito, Ecuador.

Desmantelarán Proteccionismo Industrial. Noviembre 30, 1989.
Reforma Arancelaria. Enero 19, 1990. Por: Michael Hollihan
Colocarán Listas de Precios en Ferias. Enero 20, 1990.
Darán Información Macroeconomica. Enero 23, 1990.
Nómina de productos con excedentes exportables. Enero 19, 1990.
Incierto el destino de 13.200 toneladas de arroz. Enero 20, 1990.
Importadores deberán justificar uso de USD. Marzo 31, 990.
Intendente recorrió las distribuidoras de arroz. Febrero 15, 1990.
Nerviosismo causa el incremento del dólar. Junio 15, 1990.
Obligados a vender a precios oficiales. Junio 12, 1990.
Criterios contrapuestos sobre el nuevo arancel. Junio 13, 1990.
Por qué no cede la inflación? Marzo 10, 1990. Por: Manuel Maldonado.
JM Pide austeridad en gastos corrientes del sector público. Julio 12, 1990.
Aplicarán aranceles reales para protección industrial. Febrero 6,