IMPACT OF TRADE REGULATIONS ON ECUADORIAN IMPORTS FROM 2007 TO 2013

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Resumen

Esta investigación examina las fluctuaciones de las importaciones ecuatorianas, con respecto a cómo fueron afectadas las políticas comerciales gubernamentales del año 2007 al 2013. Los resultados incorporan datos mensuales obtenidos de analizar las estadísticas obtenidas a través del Banco Central del Ecuador. Adicionalmente, al organizar estas estadísticas en grupos trimestrales, y al analizarlas basándose en reportes económicos semanales, esta investigación muestra que las políticas socialistas, en vez de reducir las importaciones, las duplicaron en el largo plazo. Un análisis más profundo mostró como se duplican las importaciones como resultado del gasto público, que inyectó más dinero a la economía, que a su vez estimuló las importaciones de bienes de consumo a pesar de las tarifas impuestas. Por los tanto, esta investigación muestra que a pesar de estimular el crecimiento económico, las políticas restrictivas fallaron en alentar mayor producción nacional de bienes de consumo.

Palabras claves: comercio exterior, balanza comercial, importaciones, bienes de consumo, gasto público, socialismo, proteccionismo.

Abstract

This paper examines fluctuations of Ecuadorian imports, with respect to how each was affected by governmental trade policies from the year 2007 to 2013. The results incorporate from statistical of data obtained through the Central Bank of Ecuador. Additionally, by organizing these statistics into quarterly data sets, and analyzing weekly economic reports, this research shows that socialist policies, instead of decreasing imports, doubled them in the long run. Deeper analysis showed that the duplication of imports numbers resulted from higher Government spending, which infused more cash into the economy, which in turn stimulated imports of *consumer goods* despite higher tariffs. Thus, this paper shows that while stimulating economic growth, the restrictive policies failed to encourage further domestic production of *consumer goods*.

Keywords: international trade, balance of trade, imports, *consumer goods*, public expenditure, socialism, protectionism.

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INTRODUCTION

This paper examines fluctuations in Ecuador's imports of *consumer goods*, *capital goods*, *raw materials*, *fuels and lubricants*, with respect to how each was affected by governmental trade policies from 2007 to 2013.

Initially, the goals of the executive power exerted by Rafael Correa's socialist Government focused on amending the Ecuadorian Constitution. He dismantled the National Congress, and re-called elections. Consequently, he kept in place a majority of the existing trade policies, including import restrictions. Statistical analysis from *Central Bank of Ecuador* and *Weekly Analysis* from 2007 to 2008, show a trend of increased imports within all groups and subgroups during this period.

In 2009, however, threatened by the world financial crisis, Rafael Correa's Government enacted tight import restrictions in an attempt to reduce negative balance of trade gap. When a stronger dollar inflated the price of Ecuadorian products, the Government allowed *raw materials* and *Capital goods* to enter the country with little or no tariff in an effort to promote domestic industry and production of *consumer goods* that would otherwise be imported. At the same time, authorities applied higher tariffs and quotas on several categories of *consumer goods*. These actions were among the Government's first tangible steps towards standing policy of protectionism.

The central purpose of this paper is to review commercial trade policies within the framework of *case study* (Creswell, 2013) about the Ecuadorian government measures in the last seven years, to protect dollarization and local production, which seem to be failing since they force stablishied trade barriers and it has raised public expenditure increasing consumption which can not be supplied by the local production, ending up in an increase of imports and capital outflows.

Definition of terms

International trade: the commercial interaction of countries measured by imports and exports (Organisation for Economic Cooperaiton and Development, 2007).

Balance of trade: it measures exports against imports. When the exports outweigh the imports, there is a surplus. If the imports outweigh the exports, there is a trade deficit (US Economy, n.d).

Imports: acquisitions of foreign goods and services from the inhabitants of one country (Organisation for Economic Cooperaiton and Development, 2003).

Public expenditure: the amount of money spent by the central or local governments, as well as public corporations. Sineviciene, L., & Vasiliauskaite, A. (2011).

Socialism: An economic system, founded on social and communal ownership of the principal means of production, where workers have control over economic resources, choices and society planning. Planning, coordinating and implementing economic decisions from a strategic level. Li, M. (2013).

Protectionism: An economic strategy of safeguarding domestic industries against foreign ones, by using tariffs, subsidies, import quotas or other trade barriers. Milner & Yoffie (1989).

Balance of Trade terminology

Consumer goods: tangible commodity that is produced and bought to fulfil a buyer's need. They are classified as durable and non-durable. Durable *consumer goods* have a long lifespan, like automobiles, while non-durable are perishable, like food. Bond & Iizuka (2014).

Raw Materials are the basic elements or substances used as input in the production of intermediate or finished goods. Chen et al, (1993)

Capital Goods manufacturing support utilized in manufacturing consumer goods or services. McConnell et al, (2008)

Fuels and Lubricants are the imported processed petroleum derivatives like gasoline and oil, used in vehicles and transportation of consumers and companies.

LITERATURE REVIEW

Capitalist prone democracies reject trade barriers because they are responsive to the needs of the public, being sensitive to the elasticity of imports' demand. When the demand for a specific import is inelastic, trade barriers or any form of protectionism harm consumers, therefore, democracies apply low tariffs (Peterson & Cameron, 2014).

Though proven to be negative in the long term, the Ecuadorian Government is applying protectionism, resulting in scarcity of several *consumer goods*, which ends in inflation. (Dexter et al., 2005) Also, it endangers the national productivity, since tariffs applied in 2012 and onwards affect *raw materials* needed to manufacture locally. (Ecuador Inmediato, 2014).

Contraband is on the horizon. Roberto Aspiazu, the CEO of the *Ecuadorian Entrepreneurial Committee*, believes that the demand will push contraband through the borders (Ecuador Inmediato, 2014). (Henn & McDonald, 2010) states that protectionist meassures would retard growth for years. However, the perception of the authorites is that Ecuador has become a consumerist country of goods local and imported (El Comercio, 2012).The support for protectionism and trade barriers comes from the belief that it would have a direct impact on the level of *Industrial*ization of the country, safeguarding the dollarized system (El Telégrafo, 2014), and diminishing the balance of trade (El Tiempo, 2014).

The goal of the President if to substitute more than $ 6 billion in imports by the year 2017, exerting a positive effect on the GDP and the balance of trade. (El Universo, 2014).

Though ambitious, the plan showed the desired effect during January of 2014, right after the latest measures were applied (Hoy, 2014).

(Milner & Yoffie, 1989) argue that free trade is not always preferable, and that protectionism can increase national income by incraseing revenue of local companies in some imperfect markets, if government fosters three primordial factors: 1.Large economies of scale, 2.Steep learning curves and 3. Increased amount of Research & Development. For companies, factors one and two are of primordial importance since it allows them to create income, if an industry´s production of goods generates economies of scale and learning curves, access to foreign markets, the response of foreign firms and governments will influence profitability of local companies, therefore there will be an interdependence of the actions of other countries. If in the domestic market demand for goods is constrained, local firms will seek international markets to sell their products. Concordantly, learning curves will influence the cost structure, since the first company to create a vast sales base will have a lower cost, which can not be emulated by other firms. Since one or more of this factors may cause barriers to entry, protectionism could provide for the fisrt company, cost advantages that later firms can not replicate.

According to (Cassing, 1987) Protectionism produces some additional employment in the protected industries, at a astounding consumer cost per job generated and a small burden in efficiency loss, depending on the country and industry the effects might benefit (or not) the economy, in the United States protectionism showed labor benefit in textiles, and losses as in the maritime industries. However Cassing explians that the U.S.A. should dissuade both labor and management premise of looking for special protection and profiting from taxes and trade barriers for their goods, for a policy that aids locally produce goods to become more competitive.

(Henn & McDonald, 2010) manifested that on November 2008, G-20 leaders have pledged to “restrain from increasing barries to trade goods and services” many governments around the world have emulated this proposal and diminished tariffs and quotas, furthermore the World Trade Organization estimates that less than 1% of world trade is exposed to new protectionist processes since the 2009 Financial crisis. Additionally, developing countries have have become mindful about the significance of the role of open markets in economic growth.

Effect of Protectionism in the United States

For (Henn & McDonald, 2010) the enactment of the Smoot-Hawley Tariff Act of 1930, after the Stock market crash of October 1929, protected the domestic market and the balance of payments, by increasing tariffs, which created resentment among some US trading partners which in a reciprocal manner increased tariff and quotas that combined with deflation accounted for 12 to 20% import decrease in the US between 1930 and 1932 and a deacceleration of world trade by 25% between 1929 and 1933. Although prtotectionist measures per se did not cause the great depression, the former did contribute to slowdown the recovery.

In the XXI century, a crisis engulfed the global financial system in 2009, Economist, policymakers, WTO and IMF recommended, among many measures to disregard protectionism on the grounds that it could expand and elongate the financial crisis, to help reduce the crisis according to (WTO, 2009 cited in Henn & McDonald (2010) 99 percent of imported goods are based on *ad valorem*, a percentage of value basis which states that a diminishing imported good will pay a lower tariff. Aditionally, governments adviced to increase spending and expand money supply to foster the acquisdition of goods on credit, to increase the circulation of capital in the economy and shorten the crisis. The private sector is also interested in less trade regulation, since manufactrutring companies local or foreign require foreign inputs to manufatcure locally.

Reasons for protectionism

Trade

According to (Henn & McDonald, 2010) protectionism may rise if nations with high prices on commodities, face the risk that some countries may impose tariffs or quotas on their commodity exports or a as a retribution for restrictions on trade applied earlier on exported goods. (Milner & Yoffie, 1989) ratify this statement as they contend that the behavior of foreign rivals and their governments may develop trade restrictions, to counterbalance this measure the affected government adopts a “strategic trade policy” where trade restrictions are formulated by the local government to favor the it’s market, if foreigners have protected their goods with commercial restrictions.

Economics

On a large macroeconomic view, when the financial incentive of the private sector -via credit-, and the government economic stimulus via fiscal and monetary policies are gone, industries call for protection to defend and stimulate the consumption of local goods. Also, if firms notice that a *comparative disadvantage* (Milner & Yoffie, 1989) on the production of goods, which is threatening their profitability, local companies will look for trade restricitions to maximize profits.

However, in developing countries, a massive influx of capital like a loan from Inter-American Development Bank or the increase of F.D.I., may appreciate the exchange rate of the currency, benefiting exporters and damaging the economic position of importers who may claim for a protectionist measure.

METHODOLOGY

This research requires analytical methods, because it compares periods of time based on analyses of statistical variations.

The research analyzes the economic variables provided by the Central Bank of Ecuador, provided on a quarterly and yearly basis, performing a comparative study of the economic metrics. The variation was established by:

$$\% \Delta = (\Delta Q / Q1) * 100$$

where:

$$\% \Delta = [(Q2 - Q1) / Q1] * 100$$

where:

Q2 = the total imports in dollars of quarter analyzed.

and

Q1 = the total imports in dollars of the previous quarter

This formula was applied in the charts, following three formats:

- Tables display quarter to quarter variation for individual years.
- Tables for comparative variations of the same quarter of every year.
- A table for the period 2007 – 2013.

The reasons behind the variations are provided through analysis of the information published by the economic and political Ecuadorian journal: *Weekly Analysis*.

RESULTS

Results for 2007

Table 1 indicates that the first quarter of 2007 registered a total amount USD 2,864 M. Imports remained almost steady during the second quarter, with a variation of 3%. *Consumer goods* rose by 11%, *raw materials* contracted by -6%, *Capital goods* also contracted by -6%, and *fuels and lubricants* rose by 26%. The third quarter increased by 12%, pushed by *consumer goods* by 10%, *raw materials* by 13%, *Capital goods* by 7%, and *fuels and lubricants* by 18%. The fourth quarter continued with the rising tendency. The total imports grew by 15%. *Capital goods* increased by 26%, *consumer goods* 23%, *fuels and lubricants* 11%, and *raw materials 4*%.

Results for 2008

Table 8 shows an overall increment of 21% in the first quarter in comparison with the same period of 2007. In Table 2, imports increased in the second quarter by 21% from the previous quarter. *Raw materials* grew 20%, even though the subgroup of *raw materials* for *construction* fell -16% in comparison with the previous quarter. *Capital goods* also increased, by 17%, and its subgroup *Capital goods* for *agriculture* increase by 31%.

In comparison with the same period of the previous year, Table 9 shows that the imports of the second quarter of 2008 soared by 43%, led by the group of *raw materials*, which increased 55%, then by *Capital goods* by 42%, then *consumer goods* by 40%, then *fuels and lubricants* by 30%. In the third quarter, imports grew by 19% as shown in Table 2. The subgroup of *raw materials* for *construction* escalated significantly by 68%, as well as the group *fuels and lubricants* by 45%. The subgroup group *Capital goods* for *agriculture* expanded meaningfully too, by 35%.

Table 10 shows imports soared by 52% from the same period of last year. Table 2 reveals that total imports fell by -6% in the fourth quarter with respect to the previous quarter. *Consumer goods* increased by 8%, *raw materials* contracted by -7%, while its subgroup for *construction* increased by 23%. Comparing the groups of *consumer goods* and *raw materials* with the same quarter from the previous year, both increased by 24% and 39% respectively, as shown in Table 11.

Capital goods increased by 16%, while the subgroup of *Capital goods* of transportation increased by 21%. The group *fuels and lubricants* descended significantly by -40%. *Raw materials* increased by 38% from the same period last year, and *fuels* dropped by -14%. Throughout the year (Table 2), the groups classified as *others* shows growth, for the second quarter it grew by 19%, then it broaden significantly by 277%, and then again by 221%. This group's increment, though enormous in percentage terms, only represents a few million dollars, having no major effect in the overall amount of imports. Imports grew 24% from 2007 to 2008, that is, from $12,9 B to $17,4 B, as shown in Table 12.

Results for 2009

In Table 8, imports decline by -2% on the first quarter versus the same period from last year. *Consumer goods* remained almost steady. *Non-durable goods* dropped by -5%, while *durable goods* grew by 8%.

Raw materials behaved the same way as *consumer goods*. In overall, they decreased by -4%, led the subgroup of *agricultural*, which contracted by -26%, then by *Industrial raw materials* by -1%, opposing *construction* which grew by 11%. *Capital goods* increased by 15%. The subgroup *agricultural Capital goods* soared by 77%, then *Industrial Capital goods* by 21%, and *transports* only 2%. *Fuels and lubricants* fell by -25%. Table 3 points out the decrease of imports during the second quarter. Total imports contracted by -7% from the previous quarter, especially *consumer goods* -10.34%. Its subgroup of *non-durable goods* fell by -7% and *durable goods* by -16%.

Raw materials also contracted, but only by -4%, while two of its subgroups, *agriculture* and *construction* raised by 25% and 33% respectively. *Capital goods* also dropped, by -9%, *fuels and lubricants* fell by -5%. In comparison with the same period from last year, in Table 9 imports declined by -25%, led by *fuels and lubricants* by -44%, then *consumer goods* by -27%, then *raw materials* by -24% where *construction* outstands increasing meaningfully by 77%, then *Capital goods* by -10% where the subgroup of *agricultural* raised by 21%.

Table 3 also reflects a recovery during the third quarter with respect to the previous one. Total imports grew by 10%, led by *fuels and lubricants* which escalated by 43%, and *consumer goods* which increased by 13%. *Raw materials* increased 5%, pushed by *Industrial* (8%), but held back by *agricultural* (-3%) and *construction* (-2%). *Capital goods* contracted by -2%, dragged by *agricultural* (-16%), and *transports* (-9%), while *Industrial* only increase 1%. Imports plummeted during the third quarter of 2009 versus the third quarter of 2008 by -19%, a decline represented in Table 10. *Consumer goods* decreased by -20%, *raw materials* by -20%, *Capital goods* by -13%, and *fuels* by -27%.

Table 3 shows that imports raised 14% during the last quarter of 2009. *Consumer goods* increased by 10%, with *durable goods* rose by 36%, and *non-durable goods* falling by -3%. *Raw materials* also increased, by 8%. *Capital goods* raised by 13%, *fuels and lubricants* by 30%. Table 11 compares the fourth quarter of 2008 with the fourth quarter of 2009, where imports dropped by -15%. The main drop was *consumer goods*, by -24%, followed by *Capital goods* by -25% and *raw materials* by -18%. Only *fuels and lubricants* increased by 20%. In Table 12, imports fell by -35%, that is, from $17,4 B in 2008 to $ 140 B in 2009.

Results for 2010

Table 8 shows a recovery of 18% of overall imports in comparison with the same period from last year. *Consumer goods* grew 13%, with *durable goods* recovering by 33%. *Raw materials* increased by 19%, with the subgroups of *agricultural* and *construction raw materials* increasing by 47% and 31% respectively. *Capital goods* decreased by -1%, being the strongest decrease of *agricultural* capital goods, which decreased by -35%. The groups for *fuels and lubricants* escalated by 66%.

Table 4 portrays a raise of 17% in the first quarter of 2010 versus the previous one. *Consumer goods* increased by 12%, *raw materials* by 5%, *Capital goods* by 12%, and *fuels and lubricants* increased again by 50%. In comparison with the same period from last year, Table 9 renders a significant increase 49% from the same period of the previous year. *Consumer goods* climbed 49%, *raw materials* 31% and *Capital goods* 22%. *Fuels and lubricants* heightened again by 161%, more than double in a year.

Imports rose by 9% during the third quarter as shown on Table 4. *Fuels and lubricants* contracted by -8%, *raw materials* struggled to rose by 4%. *Consumer goods* rose by 17%, this is a sign that importers held high levels of inventory. *Capital goods* climbed by 24%. In comparison with the same period from 2009, Table 10 illustrates that imports raised by 47%. The increase was led by *fuels and lubricants* by 69%, *Capital goods* by 55%, *consumer goods* by 46% and *raw materials* by 31%. The fourth quarter increased only by 5% in comparison to the previous quarter, *consumer goods* increased by 3%, *raw materials* by 4%, *Capital goods* by 8%, and *fuels* by 3%. Table 4 shows these fluctuations.

Table 11 compares the fourth quarter of 2010 with the fourth quarter of 2009. Imports rose by 35%. *Capital goods* was the group with the highest increment (48%), then *consumer goods* (37%), followed by *fuels and lubricants* (34%) and (25%).

Results for 2011

The first quarter of 2011 reveals an increase of 24% with respect to the first quarter of 2010. The demand for foreign *consumer goods* rose, resulting in a variation of 18%, having an increment of 18% in non-durable *consumer goods*. *Raw materials* increased by 19%, specially the subgroup of *Industrial* in *raw materials* (21%).

Capital goods climbed by 29%, having the subgroup of *agricultural* capital goods expanding to 54%. *Fuels and lubricants* increased by 36%. Table 5 shows that imports rose again during the second quarter in comparison with the first quarter of 2011. Overall imports increased by 15%. *Consumer goods* had a variation of 17%, with the subgroup of durable *consumer goods* increasing by 21%. *Fuels and lubricants* also show an important increase of 36%. With respect of the same period from last year, imports grew by 22%. *Consumer goods*, *raw materials* and *fuels and lubricants* rose by 23%, followed by *Capital goods* by 21% as reflected on Table 9.

The third quarter remained almost the same as the second quarter of 2011. Table 5 indicates a variation of overall imports by 2%. *Consumer goods*, increased by 9%, *raw materials* by 6%, *Capital goods* only by 2%, and *fuels and lubricants* declining by -9%. Table 10 points out that imports increased by 15% in relation with the same period from last year. *Raw materials* showed a higher increment by 25%, *fuels and lubricants* by 21%, *consumer goods* by 15%, and *Capital goods* showing virtually no variation. In Table 5, imports increased by 6%. Oddly, *consumer goods* fell by -3%, *raw materials* increased by 15%, *Capital goods* climbed by 20% and *fuels and lubricants* grew by 8%. Table 11 reflects a recovery of imports in comparison with the same quarter of last year. Imports increased by 17%, being *fuels and lubricants* the group with a higher variation (27%), then *raw materials* (22%), then *Capital goods* (12%), and then *consumer goods* (7%). Table 12 indicates a yearly increase of 20% in imports.

Results for 2012

Table 8 shows an increase of 15% in total imports for the first quarter of 2012 in comparison to the first quarter of 2011. *Consumer goods* rose by 21%, *raw materials* by 11%, *Capital goods* by 18%, and *fuels and lubricants* by 11%. Table 6 reveals that imports grew only by 6% from the first quarter to the second quarter of 2012. *Consumer goods* rose by 5%, *raw materials* declined by -6%, *Capital goods* rose by 6% and *fuels and lubricants* climbed by 24%.

Table 9 shows a growth of 5% in total imports from the second quarter of 2011 to the second quarter of 2012. *Consumer goods* increased by 9%, *raw materials* fell by -9%, *Capital goods* increased by 18%, and *fuels and lubricants* increased by 1%. The third quarter registers in Table 6 an increment of 4% in total imports from the previous quarter. *Consumer goods* remained the same, with virtually no variation, while *raw materials* increased by 12%, as well as *Capital goods* which increase by 4%, and *fuels and lubricants* declined by -4%.

In Table 10, with respect to the same quarter from the previous year, the third of 2012 quarter rose by 7%. *Consumer goods* did not vary, while *raw materials* grew by 2%, *Capital goods* soared by 21%, and *fuels and lubricants* increased by 8%. During the fourth quarter of 2012, total imports fell by -5%. *Consumer goods* contracted by -8%., *raw materials* by -5%, *Capital goods* by -13%, but *fuels and lubricants* rose by 9%. In Table 11 the fourth quarter also decreases in comparison to the fourth quarter of 2011. Total imports dropped by -4%, being *Capital goods* the group that dropped the most (-12%), followed by *consumer goods* (-5%), but *fuels and lubricants* increased by 9%. The yearly total imports increase by 5% from 2011 to 2012.

Results for 2013

According to Table 8, the total imports for the first quarter of 2013 increased by 9% with respect to 2012. Table 7 reflects an increase of 5% in total imports from the first quarter to the second quarter of 2013. *Consumer goods* rose by 14%, *raw materials* by 5%, *Capital goods* by 8%, and *fuels and lubricants* fell by -4%. Table 9 indicates an increment of 9% between the second quarter of 2012 and the second quarter of 2013. *Consumer goods* rose by 3%, while *raw materials* increased by 19%, and *Capital goods* by 8%. *Fuels and lubricants* contracted by -13%.

In Table 7, the fourth quarter of 2013 shows a variation of only 1% of increment from the previous quarter of 2013. Only *consumer goods* rose (3%). The groups of *raw materials*, *consumer goods* and *fuels and lubricants* declined by -9%, -7% and -3% respectively. The imports of the fourth quarter of 2013 in comparison to the imports of the fourth quarter of 2012 increased by 6%. *Consumer goods* climbed by 17%, *Capital goods* by 8%, *fuels and lubricants* by 2%. *Raw materials* remained the same. The imports of the year 2013 exceeded those of 2012 by 7%.

DISCUSSION OF THE RESULTS

2007 Analysis

The year 2007 followed 2006 with an increasing trend for *consumer goods*, and a decreasing trend for *raw materials* and *Capital goods* in the last months of 2006 (*Weekly Analysis*, 2007). In the first quarter of 2007, the behavior of *consumer goods* showed that the market contracted slightly. *Raw materials* show the same behavior as capital goods, since this group's economic destination is to supply the market with domestic goods.

The second quarter was affected by the weak dollar exchange rate. The prices of foreign *raw materials*, as well as *consumer goods*, raised, which resulted in more expensive domestic production. The oscillations of imports from these two groups reflect fluctuations in prices, therefore with higher prices, both group dropped in comparison with the previous quarter (*Weekly Analysis*, 2007). This can also be applied to the behavior of the group *fuels and lubricants*.

In the third quarter, in comparison with the second quarter, imports grew little, but steady. They increased as a whole due to an appreciation of the dollar, and because, since July, the *Ministry of Production, Employment and Competitiveness Coordination* (*Comexi*), dropped the tariffs to 0% and 5% for 1957 items belonging to the groups of *Capital goods* and *raw materials* , (*Weekly Analysis*, 2007).

This was part of the *Comexi*'s plan to encourage local production, the next step, which was to increase the tariffs on the imports of *consumer goods*, was applied in October (*Weekly Analysis*, 2007).

This plan was supported by President Correa, who stated:

> "I am not against trade; I am against a foolish openness. We will enter a free trade if it does not affect our productivity… *Plan B* is what the developed countries have done to reach their situation: use international trade to their benefit to promote production and employment, not for destroying the economy, like the openness to which our elite wants to take us". (El Comercio, 2007).

During October, the Government applied a program to renovate public transportation vehicles. The tariff to import these vehicles was reduced to 0%, (*Weekly Analysis*, 2007).

The aim of this decision was to switch from high using fuel cars, to low using fuel cars, in order to reduce the imports of *fuels and lubricants*, and subsequently, reduce the Government expenditure in subsidies to *fuels*. The group of *fuels and lubricants* shows an increasing trend throughout the year 2007 (*Weekly Analysis*, 2007).

2008 Analysis

2008, similar to 2007's final quarter, showed the tendency of raising tariffs on *consumer goods*. It also showed a lowering of tariffs on *Capital goods* and *raw materials* in order to encourage domestic production (*Weekly Analysis*, 2008). The first quarter of 2008, in comparison to the first quarter of 2007, showed an increase in overall imports, particularly in *consumer goods*, and *fuels and lubricants*, which reveals an increment in the demand.

On March, the Government implemented the strategy of applying special taxes on goods considered "sumptuary." The first items that suffered under this regulation were vehicles which prices surpassed $20 thousand, and pick-up trucks which surpassed $30 thousand. The tax varied from 15% to 35%, depending on the value of the vehicle (*Weekly Analysis*, 2008).

Another item that was taxed was the perfumes. President Correa stated that:

> "Under the *Taxation Equity law* perfumes were taxed with 20%, in order to discourage the importation of this item. Ecuador is spending more than $100 million, and that makes no sense. Perfumes are not a basic good, they are a sumptuary good". (Prensa Presidencial, 2008).

In the second quarter, and in comparison with the first quarter of that year, the growth of imports was driven again by *consumer goods* and *fuels and lubricants*. The policy of 0% for these last two groups was what encouraged the increment.

The third quarter of 2009 suffered a deceleration in the growth of imports, though the growth continued. The growth was led by the subgroup of *raw materials* for *construction*, after being depressed during the previous quarter. The next group that increased was *fuels and lubricants*, followed by the subgroup of *agricultural* in *capital goods*, as a direct effect of lowering the tariffs to 0% for 112 custom classifications (*Weekly Analysis*, 2008). In comparison with the same quarter from 2007, the imports soared, giving sense to the governmental appliance of the trade regulations.

The fourth quarter showed the first effect of the trade restrictions. The demand of *consumer goods* always increases at the end of the year due to the holidays, but during 2008 it increased slightly as the imports of *raw materials* fell. The imports of *raw materials* and the imports of *consumer goods* are both indicators of the domestic demand, for which these statistics show to be weak for this last quarter, which coincides with the world financial crisis and the fear of that crisis affecting Ecuador.

The first three quarters were dominated by high public spending that reached \$21,368 billion that year (Buró de Análisis Informativo, 2011). The last quarter felt the impact and fear of the international crisis. While oil prices were dropping, the gap of the non-oil balance of trade was expanding, reason for which the government was forced to apply restrictions mainly on *consumer goods* that are produced locally, as neighboring countries devaluated their currency, encouraging imports as a consequence (*Weekly Analysis*, 2008).

The Government continued with the elimination of tariffs for *Capital goods* and *raw materials* not produced in the country, meanwhile taxes were added under the *Comexi*'s orders, to 940 custom classifications (*Weekly Analysis*, 2008).

2009 Analysis

The first quarter of 2009 began with the pressure of an imminent negative balance of trade to be expected by the end of the year of around \$3,4 B. Authorities prepared more measures of trade safeguards, trade retaliations and direct prohibitions (*Weekly Analysis*, 2009). These measures forced consumers to refrain from buying foreign goods or to buy domestic goods. By doing these, the Government passed to the importers the cost of the low domestic demand, relieving the local producers (*Weekly Analysis*, 2009).

At the end of this quarter, oil exports recovered, and its effect of the balance of trade was combined with import restrictions, less credit availability and lower liquidity, stabilizing the balance of trade (*Weekly Analysis*, 2009).

The President pointed out that:

> "In a dollarized economy, these measures had to be taken with or without the crisis, and if we did not take them before, it was because there was no legal way-out for doing so". (Prensa Presidencial, 2009).

The imports of the second quarter crumbled under these decisions. The total imports contracted from the previous quarter, especially the group *consumer goods*.

During May, after the Presidential Elections, production, sales, employment and the internal demand for *fuels* and electricity, bank deposits and commercial credit contracted. These events contract imports, which helped the regulations applied by the Government and relieved the balance of trade (*Weekly Analysis*, 2009).

President Correa defended the restrictions:

> "When you have a dollarized system, you can't devaluate your currency, Colombia can, so we have to take these direct measures as raised tariffs, and we will continue with this policy to encourage domestic production". (Prensa Presidencial, 2009).

During the third quarter, President Correa promised to strengthen the change of the economy, for which a selective substitution of imports is necessary, in order to protect and encourage local industry of high value added that in the long term will lead to a diversification and substitution of imports. The goal was to substitute 42% of imports in the next 8 years (*Weekly Analysis*, 2009). Imports rose on the fourth quarter driven by the time of the year.

2010 Analysis

On the first quarter of 2010 imports increased, affected directly by the high public expense. The Government brought its monetary reserves from overseas and injected them to the economy, stimulating the economy (*Weekly Analysis*, 2010).Also, due to electric crisis, the Government spent more in buying *fuels* to operate the electric generators bought by the public (*Weekly Analysis*, 2010).

The prices of *fuels*, as well as the lifting of the trade safeguards marked the second quarter. The trade safeguards were applied by the *Comexi* on 2009 (due to the balance of trade deficit crisis), and had a duration of one year.

Up until the end of the third quarter of 2009, the public spending had reached $15 B, motivating imports. To make the situation worst, the dollar losses value, this increased the prices of raw materials (Weekly Analysis, 2010). Ecuadorian refineries focused on producing more heavy *fuels,* turning from the production of light *fuels,* which put pressure on importing more *fuels* (*Weekly Analysis*, 2011). The Government had a surplus in the sales of oil, which was used to increase the public spending that reached $ 17 B at the end of October. Also, in 2010 the Government spent the monetary reserves, and received loans from IEES and China. The depreciation of the dollar during the second semester of 2010 increased the price of the *raw materials* (*Weekly Analysis*, 2010). The FED continued this policy until the end of the year, which generated inflation in Ecuador (*Weekly Analysis*, 2011).

The strategy of the Government for 2010 was to spend more money to stimulate consumption in order to have a higher local production, but the internal demand turn to the foreign supply instead. Stimulate local production through consumption driven by public expense, but it increased imports instead. To stop the outflow of dollars from the country, the Government planned more trade barriers for 2011 (*Weekly Analysis*, 2010).

2011 Analysis

The first quarter of 2011 shows an increase in imports with respect to the same period of 2010, the Government feared another deficit in the balance of trade. The restrictions forced importers to redirect their imports from one the restricted item to another on (*Weekly Analysis*, 2011). Also, the prices of oil elevated, leaving no reason for imports restrictions on the short term because the oil surplus covered the gap in the balance of payments (*Weekly Analysis*, 2011), however, oil prices dropped again at the end of the first quarter.

A high liquidity in the economy affected imports at the beginning of the second quarter, raising the internal demand. However, *consumer goods* were restricted by the authorities (*Weekly Analysis*, 2011). An appreciation of the dollar raised the imports on this quarter. At the end of the second quarter, external loans and a recovery of oil prices stop the imports restrictions (*Weekly Analysis*, 2011).

During the middle of the third quarter oil prices fell again, encouraging the Government to apply trade barriers. Authorities considered that there should be a selection and a ceiling for imports. “The decision of what to buy from others countries should not be of the consumer, but on the Government, because the consumer tends to buy unnecessary goods” (*Weekly Analysis*, 2011).

On the third quarter, the *Comexi* decided to apply imports licenses on *durable consumer goods*. These licenses had to be requested to the *Ministry of Industry and Productivity* for each shipment. The licenses were planned to serve as quotas for importers (*Weekly Analysis*, 2011).

The dollar gains strength in comparison to Latin-American currencies (*Weekly Analysis*, 2011), and authorities elevated the tax on the international transfer of financial resources (ISD) to 2%. The importers of *Capital goods* and *raw materials* were asking for the return of the amount paid for that tax (*Weekly Analysis*, 2011). In September, the amount of durable *consumer goods* dropped due to the restrictions oriented to reduce these imports to 80% of their amount from last year. This decision restrained the supply, resulting in inflation (*Weekly Analysis*, 2012). The restrictions mentioned before affected the supply of *consumer goods* during the last quarter of the year, which is when they increase the most. Imports increased mainly due to higher prices, rather than a higher amount of goods (*Weekly Analysis*, 2012).

2012 Analysis

The first measure of this year was to increase the ISD to 5% (*Weekly Analysis*, 2012). This taxation had negative effects on imports of *raw materials* and *Capital goods* (*Weekly Analysis*, 2012). Since March, the dollar starts a process of appreciation (*Weekly*

Analysis, 2012), causing a variation in prices of *raw materials*. Prices increase too for *fuels and lubricants.*

On the second quarter, the Government pressures more on imports fearing a deficit on the balance of trade. “The attitude of the Government reflects a policy of controlling the amount of dollars spent by the private sector rather than finding source for the international disbursement of Dollars……. Some analyst point that another factor which contributes to the national disbursement lies in the abundant public expenditure” (*Weekly Analysis*, 2012).

At the begging of the third quarter, the Government sharpened the restrictions on imports again (*Weekly Analysis*, 2012). The restrictions were applied to more custom categories of *consumer goods*.

The high public expense pushes a deficit on the balance of trade (*Weekly Analysis*, 2012). The Government answered by increasing the number of custom categories under restrictions, giving quotas to importers (*Weekly Analysis*, 2012). During September, bank liquidity decreased, discouraging consumer credits. This lowered the demand for imported *consumer goods*, but caused inflation (*Weekly Analysis*, 2012).

During the fourth quarter of 2011, imports on *consumer goods* fell as a combined effect of restraining consumer credits and trade restrictions (*Weekly Analysis*, 2012). The appreciation of the U.S. dollar during October made prices for *Capital goods* and *raw materials* fell (*Weekly Analysis*, 2012). Restrictions on imports, fluctuations on oil prices, exchange rate of the dollar and credit control marked this year. Imports on *Capital goods* rose, as imports of *consumer goods* fell. Trade was controlled and administrated directly by the Government (*Weekly Analysis*, 2013).

2013 Analysis

The first quarter of 2013 showed the effects of restrictions on imported *consumer goods*, having both subgroups of *consumer goods* decreasing in comparison with the same period of 2012 (*Weekly Analysis*, 2013). The Regime chose to apply a different type of trade barriers, where goods must comply with a high standard of: quality, energetic efficiency, labeling, etc. (Rosero, 2014), as a disguise for restrictions. The quota against *consumer goods* had a positive effect for the authorities, because durable and non-durable *consumer goods* show a negative variation, but the relatively new subgroup is created in 2011: *Mail* “records the purchases overseas”, which increases in comparison with the same quarter from the previous year.

During the second quarter, fluctuations are low, except for *raw materials*, which benefitted from lower prices. Governmental trade policies point to growth based on domestic demand, rather than the external demand (*Weekly Analysis*, 2013). At the end of the second quarter, the authorities feared another deficit on the balance of trade due to fall on oil prices (*Weekly Analysis*, 2013), but a loan from China during July injected liquidity to the economy, increasing imports as a result (*Weekly Analysis*, 2013).

To reduce imports of *raw materials* for public projects, the Government created *Public Importer Enterprise*, which is the overseer of the supply for the public sector. This company will move the purchases of imported *raw materials* for public projects from private agents to the Government (*Weekly Analysis*, 2013). At the third quarter of 2013, the financial resources from the Chinese loan increased the demand for non-durable *consumer goods*. Also, *raw materials* show a negative variation because of a decrease in prices

(*Weekly Analysis*, 2013). During this quarter the refinery of Esmeraldas was put through a reengineering, decreasing the amount of *fuels* produced locally, forcing the Government to import it (*Weekly Analysis*, 2013).

At the fourth quarter of 2013, consumer credit fell, and imports of *consumer goods* suffered more strict regulations (*Weekly Analysis*, 2014). However, *consumer goods* increased and the deficit of the balance of trade returned. As a response, authorities increased the number of customs categories under standard regulations, asking for a mandatory quality control certification granted by the *Ecuadorian Institute of Normalization* (*Weekly Analysis*, 2013). 2013 ended with the rush for the Government to regulated and control trade more than ever, disguising trade berries with quality standards and planning to intensify these policies on 2014.

CONCLUSION

The Government increases public expenditure expecting to stimulate domestic production through a higher degree of disposable income. However, it increases imports, since consumers turn to the foreign supply to satisfy their needs.

To encourage local production, authorities raised tariffs on imports of *consumer goods*, and lowered tariffs on imports of *raw materials* and capital goods. Still, consumers preferred imported goods. The government turned to quotas and prohibitions, which resulted in inflation.

In seven years of the current administration, it has been noticed a high public expenditure, where oil bonanza has financed the consumption of goods, among them imported items which have doubled from $13 B in 2007, to $ 26 B in 2013. This proves that the protectionist measures of the Government have been either poorly implemented, or do not work.

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