Domestic factors that constraint ecuadorian export performances*
Factores nacionales que limitan el desempeño de las exportaciones ecuatorianas

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Abstract
Exports play an important role in Ecuador; income from exports contributes to the growth of the economy. The objective of this research is to describe the national factors that limit the performance of Ecuadorian exports. The research was conducted under the inductive method, exploratory with a mixed approach and descriptive scope; the techniques used were documentary review and semi-structured interview. Data provided by the Central Bank of Ecuador on the growth rate of exports of goods and the percentage participation of the destinations of exports of goods by continent, economic area and country during 2015-2020 were taken. The results showed that exports fluctuated and lost competitiveness during the period analyzed. In conclusion, export performance is limited by national factors related to policies and management of public institutions and red tape.

Key words: Domestic factors, Exports, Performance, Ecuador, Foreign trade policy.

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Introduction

Exports are the sales of products or services, national or nationalized, from a country outside its borders, i.e., to other countries. They are related to growth, the development of the productive and commercial sector, the generation of new industries and economies of scale, and the inflow of foreign exchange to economies (Chrid, Saafi, & Chakroun, 2020).

It is impossible to talk about exports without considering the effects on companies. Empirical evidence shows that exports represent an outlet for firms seeking to offer their products in international markets in order to increase their revenues, reduce and diversify risk, become more competitive in the quest to meet customer demand and obtain greater participation in international markets (Zingone & Ruiz, 2014; Suárez-Porto & Guisado-González, 2014; Feng-Jyh & Ching-Wei, 2019).

Globalization has accelerated the pace of world trade. Companies must adapt more and more quickly to the constant changes in the environment, especially those that operate in international markets, where they must face technical and tariff obstacles and customers demand higher quality and innovation of products and better benefits (Leonidou, 1995; Martínez, 2007; Escandón, Hurtado and Castillo, 2013; Sarmiento, 2014). However, the international market is not the only thing that exporting companies...
must face, some challenges are found in the domestic market, where they must consider various aspects for exports such as: costs, tariffs, delays in obtaining paperwork and duplication of documents, among others (Kalekka & Katsikeas, 1995; García & Avella, 2007; Vanegas & Restrepo, 2016).

Studies highlight the importance of both importing and exporting country factors in export performance (Zou & Stan, 1998; UNCTAD, 2005; Beleska, 2014; Skosan & Kabuya, 2014). Fugazza (2004) points out that, while trade barriers should be taken into account and are of concern, the most important constraints to export performance stem from poor conditions in the country of origin. In this context, the determinants of exports are classified into two: on the one hand, those related to the international market and on the other hand, those related to the domestic market (Casillas, Acedo, & Moreno, 2010).

Moving down to Ecuador, it is characterized by its economy sustained by agricultural and oil activity, another characteristic is that it does not have its own currency, resulting from the adoption of the U.S. dollar in 2000 as a way out of the country’s major economic crisis that led to the devaluation of its official currency, the Sucré, and to high inflation rates (Calderón, Dini, & Stumpo, 2016) . As a result, Ecuadorian exports represent a significant weight in the national economy, the inflow of foreign currency contributes to injecting liquidity and also to balancing the trade balance. (Alvarado & Iglesias, 2017) . However, exports have not maintained a sustained growth in recent years. According to the Ecuadorian Federation of Exporters (2018) exports are more limited by domestic factors than by external factors such as the appreciation of the dollar.

Export performance is affected by both external and domestic (internal) factors. The conditions of the exporting country play an important role in exports, since Ecuadorian exports represent a significant role in the growth of the economy, this research sought to describe the national factors that limit the performance of Ecuadorian exports. The methodology used was inductive, exploratory with a mixed approach and descriptive scope; the techniques used were the structured interview and documentary review.

**Materials and methods**

A review of empirical studies on national factors affecting export performance was carried out. The objectives of Ecuador's foreign trade policy and export performance were then analyzed, and the national factors that limit export performance were identified and described.

The research method was inductive and exploratory. Likewise, field research of the export sector was carried out, with an analysis of statistical data on exports. The research was based on a mixed approach, this approach employs both qualitative and quantitative characteristics. The qualitative approach seeks to discover information by collecting data through techniques that do not require measuring or associating these data numerically, among these the interview and documentary review; while the quantitative approach seeks to collect and analyze data to test hypotheses or use
statistical data to determine patterns of behavior of the phenomenon studied (Hernández, Fernández, & Baptista, 2014).

The scope of the research was descriptive because it defines relevant characteristics of the analyzed phenomenon that allow the collection and detailing of information in isolation or. (Salinas & Cárdenas, 2009). Therefore, the analysis of export behavior was carried out through statistical data such as the export growth rate and the percentage share of total exports by continent, economic area, and country. Statistical data from 2015-2020 were taken from the Ecuador’s Central Bank.

The techniques and instruments used were the interview and documentary review and the questionnaire of questions. The companies were selected by non-probabilistic convenience sampling. Semi-structured interviews were conducted with exporting companies from different sectors and with presidents of exporters’ associations.

**Results and Discussion**

**Domestic factors influencing export performance**

The research did not find theoretical evidence on national factors affecting a country’s exports, however, several empirical studies investigated on determinants of export performance, finding national factors as results (Biggs, 2007; Majeed & Ahmad, 2006; EL, 2018). Edwards & Lawrence, (2006) in their research on South African trade policy issues, found that taxes, tariffs and protection fees implied a significantly negative impact on non-commodity exports. In addition, they found estimates of the effects that some tariff measures had on the trade balance, these measures came from, among others, "surcharges and the implicit export tax arising from the protection of intermediate inputs" (p. 51). In contrast, they found that trade liberalization not only stimulated exports by sector, but also boosted the trade balance.

Along similar lines, authors such as Ebaidalla & Abdalla (2015) point out that, although high tariffs meet import substitution objectives, they negatively affect emerging export activities, while resulting in resource misallocation, as well as misuse of scarce resources such as capital and therefore, "intensive trade policy intervention distorts the investment climate and leads to anti-export bias that impedes export performance and diversification" (p. 5). While Clarke (2005) in his research on why African manufacturing firms do not export, shows that firms in countries with restrictive trade and customs regulations and poor customs administration are less likely to export.

On the other hand, Pontius, Rogers, & Bishop (2011) in their study on the impact of supply-side constraints such as production, infrastructure, and governance on Uganda’s export performance of products in the global market, found a significant correlation between Uganda’s supply-side constraints and the performance of exportable products in the global market. The constraints include poor macroeconomic conditions, high transaction costs, poor trade facilitation, among others. In a similar vein, on the potential effects of trade facilitation in terms of increased trade flows for the EU-ACP EPA countries, Persson, "The EU-ACP Economic Partnership Agreement (EPA) countries
have been found to have a positive impact on trade flows in the region. (2008) found
that delays in the exporting country generally significantly decrease trade flows; while
reducing border delays in the exporting country by one day from the sample average
produced an export-increasing effect of about 1 percent. Other related studies showed
Gross Domestic Product (GDP), exchange rate, inflation, infrastructure, trade openness
as determinants (Allaro, 201; Sawore, 2016; Thu, Fang, & Kessani, 2019; Bekele &
Mersha, 2019). The results of this research agree that macroeconomic indicators, trade,
customs, tariff and tax policies, promotion of the exportable supply, investment climate,
regulations, institutions, trade and customs facilities, trade openness, among others, are
determinants in the performance and growth of exports.

Ecuador's export performance

Ecuador’s foreign trade policy 2017-2021 seeks to expand and promote the exportable
supply and increase exports both of products and to different markets, in order to
generate greater net foreign exchange inflows to the economy to achieve a positive
balance of trade and payments, as well as to discourage consumer imports. Likewise, it
establishes the construction of an appropriate business fabric, the reduction of
administrative procedures and costs, the improvement of the regulatory framework to
promote investment in the private sector and foreign investment. (Senplades, 2017).

For this research, the following objectives are analyzed: Increase exports and decrease
administrative procedures and costs and improve the regulatory framework.

Figure 1. Export Growth Rate. Source: Central Bank of Ecuador: Central Bank of Ecuador

Figure 1 shows the growth rate of exports, which shows that Ecuadorian exports have
not maintained sustained growth. After the upturn they had after the crisis in 2015,
where they went from a decrease of around -28% to a growth of 13.7% in 2017, they
decreased to a rate of 3.2% in 2019 and -9.4% in 2020 -the year of the Covid 19
pandemic-.
Table 1. Participation of Ecuadorian export destinations by continent, economic area and country.

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*Source: Central Bank of Ecuador*
Table 1 shows the percentage share of Ecuadorian exports by continent, economic area and country during 2015-2020. The percentages were calculated from total exports in FOB value. In general, exports to the different destinations varied, with a decreasing trend, mainly in 2019. As the table shows, exports were mainly destined to countries in the Americas, but these varied, going from a share of 64.22% in 2015 to 50.19% in 2020. The main destination was the United States; likewise, exports maintained a decreasing trend from 39.42% in 2015 to 23.66% in 2020. Likewise, exports to Latin American countries also varied, with an increasing trend between 2015 to 2018, however, they decreased in 2019 and 2020. Overall, exports to Latin American countries constituted around 25% during the period analyzed.

In turn, exports to the countries of the Andean Community of Nations (CAN), comprising Ecuador, Colombia, Peru and Bolivia, decreased. Like overall exports to Latin American countries, they went from 9.57% in 2015, to 11.59% in 2018, while in 2019 and 2020 they represented 8.26% and 6.12% respectively. Although, exports reached a higher share to Peru until 2018, they fell in 2019 and 2020, also for Bolivia.

On the other hand, towards the European Union, despite the variation in exports and a drop in share from 15.25% in 2018 to 13.92% in 2019, it increased in 2020 to 16.32%. While exports to Germany, Belgium, Italy and the United Kingdom fell in 2019, in contrast, they increased in 2020. They also increased to the European Free Trade Association and other countries in the rest of Europe. In contrast, exports to Asian countries maintained a growing trend, especially to Hong Kong, China and Taiwan.

National factors affecting Ecuadorian export performance

The results of the latest trade policy review of Ecuador carried out by the WTO show that Ecuador applies the Outward Foreign Exchange Tax (ISD). (2019a) The results of Ecuador’s latest trade policy review carried out by the WTO indicate that Ecuador applies the Outward Foreign Exchange Tax (ISD), which in the case of exports must be paid if the foreign exchange from the exports does not enter the country, this tax also affects imports of capital goods or raw materials that are used in the manufacture of finished products destined for the international market. (WTO, 2019b) This tax also affects imports of capital goods or raw materials that are used in the manufacture of finished products destined for the international market.

A study conducted by the International Trade Center (ITC) on Non-Tariff Measures (NTMs) from a business perspective (2018) on Non-Tariff Measures (NTMs) from a business perspective, through which information was obtained from 700 interviews with different Ecuadorian companies, showed that a quarter of the factors reported by exporters were related to regulations that Ecuador applies in the export process. The study indicates that 85% of the obstacles of Non-Tariff Measures (NTM) were due to procedures linked to public institutions. Other results yielded were: high costs and excessive documentation to obtain certificates, regulation imposed by Ecuador on exports, among these; technical requirements, licenses and other measures such as: clearance to exports, inspections or non-technical reviews; delays in the export process to obtain the necessary permits due to failures in the ECUAPASS system, inspections by
the Anti-Narcotics Police or the National Fisheries Institute in plants and processes, Agrocalidad and the National Agency for Regulation, Control and Sanitary Surveillance (ARCSA).

On the other hand, the instability in the growth of exports is since prices are high because the products bear the tax burden that Ecuador has with taxes and tariffs, as well as the lack of labor flexibility and unnecessary red tape that make prices more expensive. Likewise, the cost structure is high and risky to increase exports and sustain markets. (Primicias, 2019).

For the purposes of this research, the analysis of national factors grouped as follows were considered: trade agreements, foreign trade taxes, export process procedures and export clearance.

Trade agreements. Ecuador’s trade agreements benefit exports by exempting tariffs in those markets and making non-tariff measures more flexible. However, the lack of agreements with major trading partners such as the United States and key partners such as Mexico, China, South Korea and Russia affect export performance because products pay tariffs to enter these markets. In this case, products such as bananas pay 10% in China, 30% in South Korea and 20% in Japan in the first half of the year and 10% in the second half.

Taxes on foreign trade. Costs such as those arising from tariffs and taxes levied by the government, including the Tax on the Exit of Foreign Currency (ISD) and tariffs on imports of raw materials and capital goods, and tax regulations affect the competitiveness of exports. In this sense, companies must import capital goods and raw materials for the manufacture of finished products destined for export; however, some of these are subject to tariffs, and they must also pay ISD, which leads companies to add these costs to those of the product, making it more expensive, which reduces price competitiveness in the international market compared to other competing products.

Procedures in the export process. Some export procedures are carried out normally; however, for others, as in the case of the sanitary certificate, several certificates must first be obtained before finally obtaining the sanitary certificate. On the other hand, the time it takes to obtain certificates and permits for exports. Until 2019, it took companies 30 days or more to obtain certificates and other documents, although some procedures decreased to 15 days. Despite this, the processing times still cause delays in exports.

Export clearance. The export clearance procedure causes delays in exports. In the case of inspections by the Antinarcotics Police. Containers of fruit such as mango, plus those destined for the U.S. market, cannot be opened at the port of origin after a phytosanitary security seal is placed on them as part of an agreement between Ecuadorian and U.S. institutions, otherwise they will not be received at the port of destination; despite this, every year the Antinarcotics Police open between 1 or 2 containers of mango.
Conclusions

Export performance is significantly affected by several factors. This research sought to describe the national factors that limit the performance of Ecuadorian exports. After this analysis, it was found that, although the foreign trade policy seeks to increase exports, reduce procedures and costs, and improve the regulatory framework, the research showed that exports have slowed down and lost competitiveness and that these objectives are not being met. The national factors that limit the performance of Ecuadorian exports are related to the management and procedures in public institutions, the collection of tariffs and taxes, which, although exports in Ecuador do not pay tariffs or taxes, they are affected by those imposed on imports, and those imposed in countries with which there are no trade agreements.

In summary, the lack of policies adjusted to the reality and business needs and the lack of proper management by government authorities to meet these needs are factors that limit the performance of Ecuadorian exports.

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