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Degree of Master of International Studies

(International Area Studies)

Analysis of the Ecuadorian trade openness strategy
Case Study of Multiparty trade agreement between the European Union and Colombia, Peru and Ecuador

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Analysis of the Ecuadorian trade openness strategy
Case Study of Multiparty trade agreement between the European Union and Colombia, Peru and Ecuador

A thesis presented

by

Karla Carrillo Aviles

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Abstract

Analysis of the Ecuadorian trade openness strategy
Case Study of Multiparty trade agreement between the European Union and Colombia, Peru and Ecuador

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Since the last decade, the Ecuadorian trade policy has been focused on an endogenous development, promoting protectionist measures to encourage the national industry and improve results of the balance of trade. Due to this situation, foreign sector was neglected for a long time, and as a result, Ecuador lost its share in international markets and lost competitiveness in comparison to its neighboring countries. Consequently, Ecuador saw the need to increase foreign trade flows. Thus, the Government pursued a strategy of trade openness to insert the country in world's economy by the negotiation of trade agreements with in the region and the world. In this aspect, Ecuador is shifting its protectionist policy to a more open market policy, to change its trade patterns and increase its participation and competitiveness in international trade.

Under these considerations, in 2016 Ecuador adhered to the Multiparty Trade Agreement with the European Union, Colombia and Peru. This Agreement represent a milestone for the Ecuadorian strategy of trade openness since it is the most significant trade agreement the country has signed until now.

Moreover, it is argued that the Agreement represents an important opportunity for Ecuador to promote its productive sector and increase exports.

The present study analyses the effects of the Multiparty Agreement for Colombia and Peru, which are implementing the Agreement since 2013. The analysis is based in the results of balance of trade with the EU, and the imports-exports trends and composition for the Parties. Considering the results of the study, it was possible to propose policy recommendations for Ecuador to maximize the benefits and prevent the possible negative effects regarding the implementation of the Trade Agreement.

Keywords: Multiparty Trade Agreement, European Union, Colombia, Peru, Ecuador, implementation strategy.
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Table of Contents

List of Figures

GENERAL INTRODUCTION

i. Background

Since the last decade, the Ecuadorian economic and trade policy has been focused on an endogenous development, the transformation of national productive matrix[1] and the promotions of exports. To do so, the Ecuadorian government launched a strategy to encourage national industry and increase quality and quantity of national production (MCPEC, 2013). Additionally, it applied protectionist measures to restrict imports in order to protect the national industry and in 2015, the Ecuadorian government applied safeguards measures due to the complex international situation that has impacted the result of the trade balance. Moreover, the country has signed only a few and not substantial trade agreements and it has not had the politic willingness to sign Free Trade Agreements (FTA). Because of these measures, Ecuador was losing its share international markets and losing competitiveness in comparison to its neighbor countries Peru and Colombia.

Consequently, in order to improve this situation, nowadays the Ecuadorian government is pursuing to apply a trade openness strategy to increase foreign trade and improve the competitiveness by the promotion of trade agreement. In this aspect, Ecuador is changing its protectionist policies to a more open market by the negotiation and materialization of trade agreements. This new strategy tries to change the Ecuadorian trade patterns and increase its participation in

[1] The National Government proposes to transform the pattern of specialization of the primary export and extractivist economy to one that privileges diversified, eco-efficient production with greater added value, as well as services based on the knowledge economy and biodiversity (SENPLADES, 2012).

international trade. In this aspect, it is important to mention that Ecuador is member of the WTO since January 1996. It has only one Free Trade Agreement (FTA) signed and in force (EU), 4 Preferential Trade Agreements (PTA) and is part of the Andean Community custom union (SICE-OAS, 2017).

For the Ecuadorian case, the trade openness strategy was mostly boosted when the country joined the Multiparty Trade Agreement with the European Union (EU) in 2014, which is in force since January 2017. This was a milestone in Ecuadorian trade liberalization since this initiative contemplates a trade agreement with one of the world's largest market and most powerful economies, the EU. In the case of Colombia and Peru, these countries signed the Agreement with the EU in 2012 and is in force since 2013. The trade relations between the EU and Ecuador have been known by several ups and downs before the Multiparty agreement took place. EU mostly guided its trade relations regionally through the Andean Community which include Bolivia, Colombia Ecuador and Peru, but due some differences inside the custom union, the EU changed its approach to bilateral trade relations with the above-mentioned countries. Also, Ecuador and the EU have had to solve trade conflicts to the World Trade Organization (WTO) giving a complex background to these trade relations. Moreover, before 2014 Ecuador only relied on the Generalized System of Preferences (GSP +) with the EU. Nevertheless, since 2011 the World Bank ranked Ecuador as an upper middle-income country, so the European Union "officially announced that Ecuador would maintain such preferences only until 31 December 2014" (ECLAC, 2017. Pg.9). In this panorama, Ecuador negotiated and signed the Multiparty Agreement with the EU, expecting to maintain and increase trade preferences of its exports to this political and economic union. The agreement between Ecuador and the EU is

asymmetric and was designed in accordance with the development needs of Ecuador. It has certain particularities and differential specifications compared to Colombia and Peru. This agreement represents the most significant trade agreement that Ecuador has signed until now and represent an important opportunity to promote Ecuador's productive sector and increase its exports. Therefore, the analysis of the trade relations between the EU and Ecuador and the Agreement implementation results for the neighboring economies of Peru and Colombia are relevant to identify of possible effects to Ecuador (ECLAC, 2017).

In brief, Ecuador has changed its trade policy from protectionism to a more liberalized economy. In this aspect, Ecuador signed its first FTA by joining the Multiparty Trade Agreement between the European Union and Colombia, Peru and Ecuador. A historical review of the Ecuadorian – EU trade relations will be pursued until the materialization of these relations in the Multiparty Trade Agreement. Additionally, a comparative analysis of the outcomes for Colombia and Peru Agreement implementation will be applied. The main objective of the study is to identify possible impacts for the country regarding the implementation of the trade Agreement since it is an issue of current interest to the Ecuadorian economic liberalization strategy, so the present study is significant to better understand the possible results for Ecuador.

a. Purpose of Research

The implementation of the Multiparty Trade Agreement is an issue of current interest to the Ecuadorian economic liberalization strategy, so a study reviewing the background of the trade relations between the EU and Ecuador is needed to better understand the possible results for Ecuador. In this same aspect, it is

important to review the Ecuadorian internal conditions that made possible the negotiation process and led to Accession of Ecuador to the Multiparty Agreement with the EU. Having analyzed this background, it is also relevant to identify the result of the Agreement implementation during the last three years this agreement is in force for the neighboring countries Colombia and Peru. The above-mentioned countries are Ecuador's main competitors of goods and services exports, are part of the Andean Community and Party members of the Agreement. The study will provide an analysis to maximize the opportunities and advantages for Ecuador regarding the Agreement implementation and a better understanding of the country's limitations and disadvantages in this same aspect.

b. Research Questions

General

- According to this background, would be the strategy of trade openness by the promotion of trade agreements the best option to boost the Ecuadorian economy?

Specific

- What is the relevance of the Multiparty Trade Agreement in the Ecuadorian strategy of trade liberalization?
- What would be impact of the trade Agreement on EU-Ecuador trade/political relations?
- What would be the potential effects of the Agreement implementation on the Ecuadorian balance of trade with the EU, exports and imports composition and trends, according to the results for Colombia and Peru?

ii. Literature Review

Ecuador trade relation with the EU, nowadays materialized by the Multiparty Agreement, represent a milestone for Ecuadorian trade liberalization. Regarding this topic there are consistent literature about EU- Ecuador trade relations. Dávalos (2008) describe the Ecuador- EU trade and cooperation relations since 1993, when the EU signed a Cooperation Framework with the Andean Community. Also, the author described the trade relations under the Generalized System of Preferences (GSP) with the EU, which Ecuador was beneficiary since it is applied to developing countries and in the case of the Andean Community was applied to reduce the tariffs to enter the EU market. Dávalos also describes the regional and bilateral cooperation agreement with the EU and analyze the projects implemented in Ecuador with the support of the EU. Additionally, the author reviews the trade flows between EU and the Andean Community in the period 1997-2006 and identifies the possible portfolio of goods to be exported to the EU. This study is useful to identify the background of the trade relations with the EU and the commercial opportunities for Ecuador before the Multiparty Agreement was a reality for Ecuador. However, this study underestimates some historical factors of the Ecuador-UE trade relations and ignore issues that affected the regular course of these relations, such as the controversies presented before the WTO. In this context, the present research study will try to provide a more comprehensive background regarding the EU- Ecuador relations, since it would be of interest having a better understand of the pre-conditions that led to the accession of Ecuador to the Multiparty Agreement with the EU.

In the economic literature, there is still a debate between the authors who hold that an open economy will growth fast while other author argued that

protectionist measures can contribute to a good economic performance. The variable correlation between economic growth and trade liberalization has been object of study for uncountable times and considering different approaches. However, even if trade openness is said to bring positive effect to an economy, there is not a theoretical nor empirical consensus that can ratify this statement (A. Maridueña, 2011). In the case of Ecuador, Linthon Delgado (2013) applied a dynamic analysis of time series, in which he proposed the relation between trade openness and economic growth, and by the method VAR, he proved positive the relation between higher level of liberalization, higher levels of economic growth. M. Sánchez y C. Zambrano (2003), analyzed the trade structure of Ecuador and obtained similar results. Additionally, A. Maridueña, applied the VAR methodology and the VECM method to analyze this issue and found a long-term equilibrium correlation between the GDP and trade openness for Ecuador in the period 1967-2014. Under this consideration, A. Maridueña recommended better incentives to the productive sector to increase exports and increase the country participation on foreign trade (A. Maridueña, 2011).

Moreover, regarding the potential impacts of signing of FTAs for the Ecuadorian economy different studies have been published. Wong (2006) argued about the possible impacts of the US- Ecuador FTA implementation. Wong identified harmful results for the agricultural sector, since it is the most sensitive sector for the Ecuadorian economy. Wong considers the impacts of FTAs on the GDP as well, arguing that the results are mostly positive. Nevertheless, the author argues that the potential impacts on employment and tax collections are expected to be negative and produce harmful effects on those variables (Wong S., 2006).

In the same field, studies on the possible impacts of the participation of Ecuador in the Multiparty Agreement with the EU are being reviewed nowadays. The United Nations Economic Commission for Latin America and the Caribbean, ECLAC (2017) has published a study of the possible impacts of the implementation of the Agreement in the Ecuadorian economy. To do so, the ECLAC applied a Computable general equilibrium model, considering the accession of Ecuador to the Multiparty Agreement and to the MERCOSUR. The results of the study present an increase of Ecuador's GDP in 1,9% as a result of the implementation of the Agreement. It also stated that the most benefited sectors from a broad liberalization will be those of fruits and vegetables, sugar, dairy products and petroleum products (ECLAC, 2017). Even if this is a meaningful study, which consider several economic variables, it fails to consider a comparative perspective to the existing outcomes of the Agreement implementations for Colombia and Peru. Therefore, provided the data presented in this study, it will be used to further the analysis by a comparative data investigation. Consequently, the proposed study will support the current literature, and it will deepen the existing studies in a comprehensive way to provide policy recommendations to the Ecuadorian government regarding the implementation of the Agreement in general and specific aspects.

iii. Methodology

a. Theoretical Framework

Over the years, trade liberalization has been promoted as the key route to meet economic growth. Since Adam Smith and David Ricardo pointed out the benefits of international trade for economic growth, as an opposed policy to Mercantilism; economic liberalization has mostly guided world's modern economy path to achieve economic growth and production effectiveness

(Krugman P., Obstfeld M., 2015). In fact, the evolution of trade theory, from old trade doctrines to the latest theories, continues to support the “free trade doctrine to determine policy for developing areas.” (Sen S., 2010 pg. 19)

Nevertheless, Latin America has pursued economic growth through different paths. In the 60’s protectionist measures where implemented in the region. Guided by the argument promoted by Raul Prebisch, Import Substitution Industrialization (ISI) was widely applied by several countries un the region. However, because of the limited results of this policy, in the 90´s trade liberalization was again promoted to recover from the negative effects of the ISI. “For developing countries, the recommendation is to liberalize and open-up as much as possible, in order to avail of the “benefits” of the free trade doctrine...” (Sen S., 2010 Pg. 16). In this aspect, since the participation of developing countries in the World Trade Organization (WTO), there was more pressure on these economies to liberalize their markets through the reduction trade barriers, so trade openness became again the determinant for economic growth (Sen, Suanda 2010, 19).

It is undeniable that trade liberalization brings economic benefits such as economic growth, job creation and higher wages for workers (OECD, 2010). However, even though the benefits are considerable, there are negative results too, such as asymmetric growth and unemployment. Therefore, protectionism has been always an option to the countries by “policies and measures - including tariffs, quotas and various forms of subsidies - as a way of 'saving' domestic jobs and enterprises.” (OECD, 2017). Nevertheless, as the OECD mentions, these policies can also be counter-productive for the economies of the developing countries such as reducing domestic firm’s competitiveness in the export markets, additional costs for a country's overall domestic production and

generally negative impact on the global economy (Ibid). Consequently, trade liberalization policies are still promoted worldwide.

In this aspect, one of the main tools to liberalize trade are the negotiation and implementation of trade agreements between two or more partners (WTO, 2017). As the WTO, the General Agreement on Tariffs and Trade (GATT) and General Agreement on Trade in Services (GATS) before it, "have included lowered of tariffs, dismantled of quotas and barriers to trade in a growing number of goods and services, so bilateral trade agreements have become more ambitious in their scope and coverage." In this aspect, WTO rules under GATT Article XXIV "allow for preferential trade agreements provided they liberalize substantially all trade between the partners and they should extend greater liberalization than under the WTO." It is important to mention that since "tariffs have been lowered through the WTO, the focus of trade liberalization negotiations has shifted to 'behind the border' non-tariff barriers (e.g. sanitary and phytosanitary measures, vehicle tests), which have proven challenging matters to tackle in the multilateral forum of the WTO" (European Parliament-Policy Department, 2016). Trade Agreements are proven to be one of the best ways to open foreign markets to export, and it is materialized by the "reduction of trade barriers" (U.S. Department of Commerce, 2017). However, there are also diverse effects of the trade agreements, sometimes positives other negatives. Trade agreement have direct impacts on "international trade in goods and services, consumers, labor markets, international investment, receipts for intellectual property, and the trade position of small and medium-sized enterprises" not always guarantee the best results for all parts (United States International Trade Commission, 2016).

In this context, the present research study will use the theoretical framework of trade liberalization to analyze the Ecuadorian trade policy and the trade relations with the EU. Additionally, the analysis of the context and the implementation of the Multiparty Agreement with the EU, as a case study will be based on the concept of trade agreements as a tool for trade liberalization.

b. Hypothesis

According to the analysis of the trade relations between Ecuador and the EU and according to the results of the Multiparty Trade Agreement implementation, it can be argued that trade liberalization by the negotiation of trade agreements is the best alternative for boosting Ecuadorian economy. It will produce positive results in the balance of trade for Ecuador and the UE and positive effects for exports and imports composition and trends.

c. Research Methodology

Considering the literature review, the present study will pursue to further the existing studies on the effects of the Multiparty Trade Agreement with the European Union and complement the research methods on the subject in a more comprehensive way. In this matter and considering the nature of the research, qualitative and quantitative methods will be applied to conduct the study.

- Qualitative methods
    - To analyze the Ecuadorian trade policies and trade relations with the EU an historical review will be applied of the last decade (2007-2017). This analysis will be conducted by a review of official reports of the institutions involved in the topic, related studies and bibliography.

- To analyze the Multiparty Trade Agreement with the European Union official documents will be used to review the negotiation process and preliminary implementation results.

- Quantitative Methods
  - Regarding the case study, a comparative analysis will be applied to measure the effects of the Multiparty Trade Agreement implementation. Data will be collected from the official sites of the member Parties of Agreement, and International Organizations' data base.
  - The analysis will consider the countries of the Andean Community part of the Trade Agreement with the EU: Ecuador, Colombia and Peru. Additionally, the country selection is based in the fact that Colombia and Peru are the main competitors for Ecuador regarding export goods (banana, flowers, tuna, cacao, shrimp, etc.).
  - The variables used for the analysis will be the balance of trade of the Parties with the EU, exports and imports composition and trends.

iv. Content Overview

The present study consists of five sections. The first part is a general background of the topic with a description of the purpose of research and research questions. It is followed by the literature review relevant to the study, and then a description of the research methodology applied in the research

study. In this subsection, the hypothesis, research methods and theoretical framework are defined.

The first chapter describes the Ecuadorian trade policies in the last decade. It considers a review of the historical economic and trade conditions that led Ecuador to the Multiparty Agreement adhesion. Similarly, it includes a review of the bilateral trade relations with the EU. The chapter is based on the theoretical foundation of trade liberalization and tries to identify the differential characteristics of the EU-Ecuador relations compared to other countries in the regions, specially Colombia and Peru.

The second chapter describes the process of negotiation of the Multiparty Agreement. Following the process review, a brief analysis of the Agreement document will be pursued to identify the differential conditions negotiated for Ecuador in contrast to the Colombian and Peruvian Agreement document. In this chapter, it is also presented the analysis of the results of the agreement implementation for Colombia and Peru in the period of 2013-2016 regarding the effects of the balance of trade with the EU, exports and imports composition and trends. Moreover, the initial results for Ecuador are also presented considering the same variables.

The third chapter provides policy recommendations for the Ecuadorian government regarding the Agreement implementation. The recommendations will be formulated in function to the current Ecuadorian trade policy and based on the EU- Ecuador historical and current trade relations, and the results provided by the comparative analysis of the Agreement implementation for our neighboring economies Colombia and Peru. Finally, the last section consists of conclusions on the research study.

CHAPTER I

ECUADOR TRADE POLICY AND TRADE RELATIONS BETWEEN ECUADOR AND THE EUROPEAN UNION

i. Ecuador Trade Policy

The present review will consider the last 10 years (2007-2017) of trade policy in Ecuador to better understand the path followed by this country to encourage a strategy of trade openness by the promotion of trade agreement. This period will be analyzed since Ecuador faced several political and economic changes during the last decade. In 2007, Rafael Correa Delgado became president of Ecuador with a new vision of development, which mostly encouraged an endogenous development perspective. During this period, the State intervention in Ecuador increased and most of the developmental path was designed by the government through the Constitution of 2008 and the National Development Plans (2009-2013) (2013-2017). Social, economic, industrial and trade goals were delineated by these instruments. (MCPEC, 2013). Trade policy is mentioned in the Ecuadorian Constitution of 2008, Title VI "Developmental Regime", Chapter IV "Economic Sovereignty", Section VII "Trade Policy", which states in the Article 304 that he commercial policy will have the following objectives:

> 1. Develop, strengthen and revitalize internal markets based on the strategic objective established in the National Development Plan.
> 2. Regulate, promote and execute the corresponding actions to promote the country's strategic insertion in the world economy.
> 3. Strengthen the national productive apparatus and production.
> 4. Contribute to ensure food and energy sovereignty, and reduce internal inequalities.
> 5. Promote the development of economies of scale and fair trade.

6. Avoid monopolistic and oligopolistic practices. (Ecuador Constitution, 2008)

Additionally, Article 306 states that:

> "the State shall promote environmentally responsible exports, with preference for those that generate greater employment and added value, particularly, the exports of small and medium size producers and the artisanal sector. The State will promote the imports necessary for the development objectives and will discourage those that negatively affect the national production, the population and the nature." (Ecuador Constitution, 2008)

National Development Plan (2013-2017) designed to meet the constitutional obligations, contains provisions on trade policy in Chapter 6, "National Objectives for Good Living", specifically in Objectives 8, 10 and 12[2]. More specifically and to implement those macro objectives the Organic Code of Production, Trade and Investment states (COPCI) in Chapter IV of Foreign Trade "establishes the Foreign Trade Committee (COMEX) as the body responsible for trade policy", which actions will be based and governed by the trade policy objectives established in previously mentioned legal instruments (COPCI 2010). It is important to mention that before 2013 Ecuadorian trade policy was not well implemented, so by Presidential Decree N°25 the Ministry of Foreign Trade was created in June 2013. The institution is the "governing body of the foreign trade and investment policy, responsible for the formulation, planning, management and coordination of foreign trade policy, trade promotion, investments attraction, bilateral and multilateral trade negotiations, import regulation and selective import substitution." (Ministry of Foreign Trade, 2017). The main objective of this institution is to increase the country's

[2] Objective 8. Consolidate the social and solidarity economic system in a sustainable manner. Objective 10. Promote the transformation of the productive matrix. Objective 12. Guarantee sovereignty and peace, deepen strategic insertion in the world and Latin American integration (PNBV, 2013)

insertion to international markets, attract foreign investment and boost non-oil exports (Accountability Report MFT, 2014).

Considering the legal framework and the institutions supporting the Ecuadorian trade policy, several strategies were developed to obtain the results pursued by the government. The most representative strategies are export and investment promotion, selective import substitution strategy and insertion to international markets, which is mostly related to trade openness (Accountability Report MFT, 2015).

Regarding the promotion of exports and investment strategy, the Ministry of Production, Employment and Competitiveness developed an agenda for the productive matrix transformation aimed to promote a change in the pattern of production which is based on a specialization on the extraction of natural resources and on the export of primary products, to the production of goods and services with high added value. Under this mission, it was promoted the Code of Production which is meant to shape a new and improved style of promoting investment and increase the flows of non-oil exports. These policy changes were proposed since Ecuador has an important dependence in oil exports, only few export products with added value, high concentration of destination markets and limited business ownership. (MCPEC, 2013). From this productive perspective, it was developed specific programs such as “EmprendeEcuador” to create new business to increase national production, “InnovaEcuador” to promote innovative ideas that will support productivity, “InvestEcuador” a system to attract national and foreign investment, and “CreeEcuador” a fund to promote the production of non-traditional product and services with high value added (MCPEC, 2013).

Moreover, to complement the above-mentioned programs, the Ministry of Foreign Trade as well as PRO ECUADOR (Institute of Exports and Investment Promotion)[3] and the commercial offices of Ecuador around the world have intensified their actions to promote the traditional and non-traditional export products by finding new markets for Ecuadorian exports and potentiating exporters' capacities (PRO Ecuador, 2017). Additionally, relevant actions have been implemented to attract more FDI since Ecuador is one of the countries with the lowest levels FDI inflows in the region. Fiscal incentives, business rounds with between local entrepreneurs and foreign business firms and international visits of Ecuadorian representatives to promote the country as a destiny for FDI have been some of the measures executed by the national institutions to increase FDI flows to Ecuador (Ministry of Foreign Trade, 2015).

Concerning imports, the government stablished a Selective Import Substitution strategy (COMEX Resolution N°116) in December 2013 as a technical barrier to trade (TBT) to promote national industry and reduce the high deficit in the balance of trade. This strategy was designed to strengthen the national productive structure, so the country could enter the international markets with a better reaction capacity. Also, it was a significant mechanism that acquired relevance for the country to control the balance of trade deficit since Ecuador lacks a monetary policy due to the change of the monetary regime "Sucre" to the US Dollar in 2000. The loss of the national currency has made the country's economy more vulnerable to the external sector and dependent on the US dollar fluctuation (MCPEC, 2013). Considering the historical background in Latin

[3] Pro Ecuador, an affiliated institution to the Ministry of Foreign Trade was created by law published in the Official Supplement No. 351 of December 29, 2010, "to promote the exportable offer of goods and services of Ecuador with emphasis on the diversification of products, markets and actors; and the attraction of foreign investment, fulfilling the objectives of the National Plan for Good Living" (ProEcuador, 2017).

America, where Import Substitution Industrialization had weak effects, Ecuadorian government argument to implement this policy was not to repeat the 50s and 60s experience but to effectively select strategic productive sectors which national competitiveness were achievable and parallelly complement this policy by the promotion of exports (MCPEC, 2013). The policy is expected to replace more than $6,000 million in imports by the end of 2017 which will directly impact on the national production and employment (Andes, 2014).

Moreover, in March 2015 Ecuador imposed safeguards as an import restrictive measure for 15 months due to the sudden drop of oil prices in 2014 that led to an important deterioration of the country's balance of trade (COMEX Resolution N°011-2015)[4]. Nevertheless, due to the tragic earthquake that stroke the country in April 2016, the safeguards were extended one more year until June 2017. This measure was supported by the WTO since it states that "countries facing balance-of-payment difficulty may apply import restrictions under provisions in the GATT 1994 agreement and under the General Agreement on Trade in Services (GATS)." (WTO, 2017). In July 2017, Ecuador announced to the WTO that the final phase-out of the surcharges was made effective on June 1ST and that the safeguard measure was dismantled (El Comercio, 2017). However, in recent months Ecuador is analyzing the possibility to increase tariffs on 400 products by 5% ad-valorem tariff to prevent national industry to be harm from the removal of safeguards. The Minster of Foreign Trade guaranteed that the measure will consider the available ceiling with respect of the WTO bound rate and will not harm the

[4] The measure was supposed to last for 15 months and the "tariff surcharges were initially fixed at between 5% and 45% and were applied to nearly 3,000 tariff lines, or 38% of the country's total" (WTO, 2017)

current agreement with the Andean Community nor the European Union (El Universo, 2017).

Finally, the insertion of the country to international markets and trade openness strategy is designed to reach a higher level of trade liberalization and a greater participation in international trade. In this aspect, the main action of the government has been an intense campaign to negotiate and sign trade agreements in the region and around the world. Nonetheless, it is important to mention that inside the government there has been a continuous debate on Free Trade Agreements (FTA). Politically there is not a consensus nor a clear position about FTA. Consequently, trade agreements are promoted, but mostly comprehensive agreements which consider national conditions. This policy contrasts the vision of other countries in the region such as Peru, Colombia, Chile which prioritize the foreign sector and an aggressive trade liberalization. This matter will be further covered in the next subsection about the Ecuadorian trade openness strategy by the promotion of trade agreements.

In brief, it can be argued that nowadays Ecuador has a clearer direction regarding trade policy and a more consistent strategy on foreign trade. Before 2013, foreign trade policy was deficiently defined and implemented which meant a severe problem for the country's international trade. Since endogenous development and inward-looking trade were the main priority, the foreign sector was neglected for a long time, producing trade isolation, harming national exports and losing the country's share in global markets This issue led to important criticisms to the government mostly from the business sector. Therefore, since the policy restructuration in 2013, the foreign trade has become a priority and greater efforts are directed to recover this sector. Ecuador's current president Lenin Moreno (elected in May 2017) has also

mentioned that the government's strategy for 2017-2021 “aims to promote foreign investment, strengthen trade relations, promote tourism and continue the strategy of international insertion to boost national development” (El Comercio, August 2017). From the strategies presented above, the insertion of the country to international markets and trade openness is an increasingly relevant issue for the country to overcome the difficulties regarding foreign sector, to stabilize the economy and to meet national development goals.

a. Trade openness strategy: promotion of trade agreements

As mentioned above, the Ecuadorian government made an important decision stablishing trade policy as a national priority and creating the Ministry of Foreign Trade and PRO ECUADOR. Considering this political will and commitment, trade openness has been pursued by the promotion of trade agreements since 2013 to increase foreign trade and to insert Ecuador in international markets. For the Ministry, it has meant “more trade negotiations to access markets” as well as the support of national enterprises to internationalize, especially small and medium enterprises (SMEs), all of this to reach diversification “greater number of destinations, more producers, more goods and services; and, more regions” (Accountability Report MFT, 2015). Consequently, the Ministry has defined as an action to pursue, the negotiation and implementation of trade and investment agreements. This has been also stated by current Vice Minister of Foreign Trade, Humberto Jiménez Torres, who ratified before the WTO that “Ecuador is seeking to increase trade by expanding its network of trade agreements.” (WTO, 2017).

Regarding the promotion of trade agreements, it can be argued that in the past years trade negotiations mostly consider political or social criteria rather than

economic priorities. However, because of the changes in national priorities and due to a more pragmatic trade policy, Ecuador negotiated and is negotiating relevant agreements such as the Multiparty Agreement with the EU and other comprehensive agreements. Nonetheless, FTAs are still a sensitive topic for Ecuador, mainly because of the volatility of Ecuador's economy to external shocks. Comprehensive agreements are mostly pursued because these are in line with the developmental goals of Ecuadorian trade policy and cover more areas other than just trade.

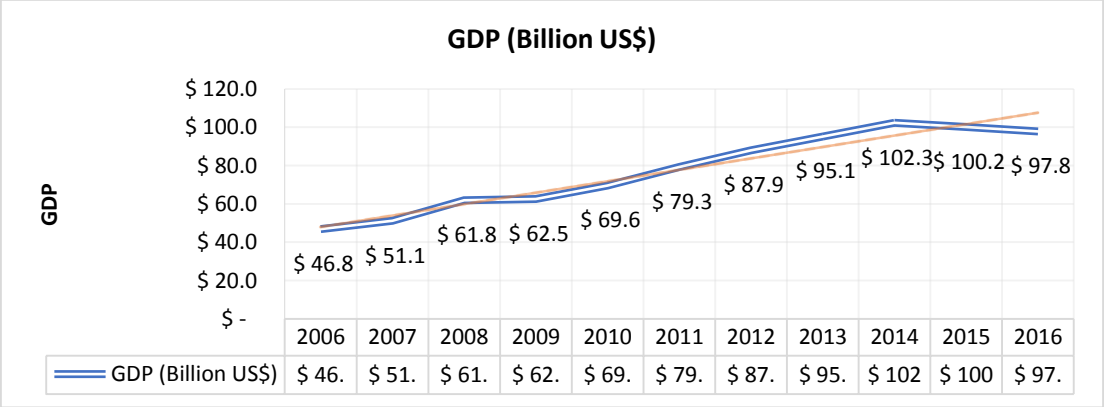
In this matter, it is important to mention that since 2007 Ecuador have signed several trade agreements with traditional trade partners and new ones. The country has signed three economic complementation agreements with MERCOSUR (Brazil, Paraguay, Uruguay, Argentina), Chile and Guatemala. Also, Ecuador has signed a protocol of partial economic complementation with Cuba, an economic cooperation agreement with Venezuela, and trade agreements with Iran, Turkey, El Salvador and Nicaragua (Turkey, El Salvador and Nicaragua agreements are still in the process of being ratified by the National Assembly) (Ministry of Foreign Trade, 2017). Moreover, the country is still negotiating trade agreements with Honduras, the European Free Trade Association (EFTA), and a strategic economic cooperation agreement with South Korea, which is in the third round of negotiations (America Economia, 2016). Additionally, in 2014 Ecuador signed the Multiparty Trade Agreement with the European Union, which is in force since January 2017. This is the most representative outcome for the Ecuadorian government regarding the strategy of trade openness by the promotion of trade agreements. Because of the relevance of this trade agreement for the Ecuadorian economy, the analysis of this case will be covered in the next chapters.

b. Ecuador Economic and Trade Conditions

It is important to present a general panorama of the Ecuadorian economic and trade conditions to have a better understanding of Ecuador's trade policy and more specific the strategy of trade openness by the promotion of a trade agreements. This brief panorama will also allow us to better understand the background of the case study - Multiparty trade agreement between Ecuador and the EU.

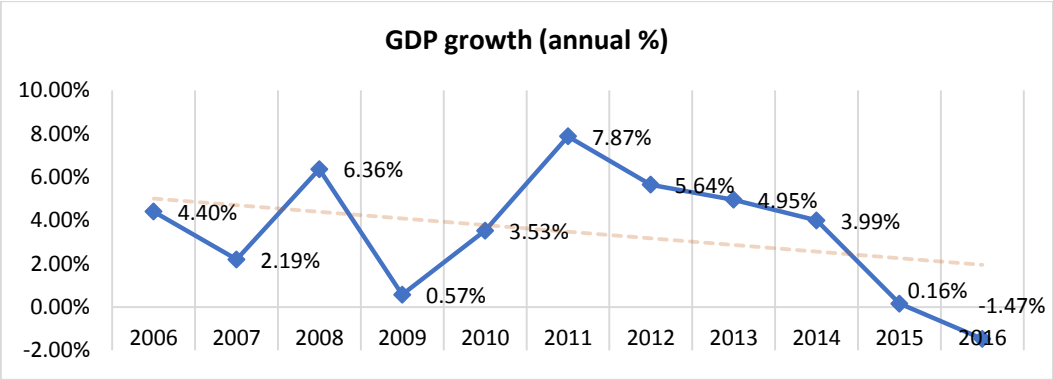
Economy

Ecuador as many countries in Latin America is related with recurring themes such as commodities, import substitution industrialization, debt, macroeconomic instability, weak institutionality, poverty, inequality and other problems that have directly impacted on the country's economic development. It is important to acknowledge that Ecuador as a developing country with a population of 16 million in 2016, is a "small, fairly-open, dollarized economy, dependent on oil revenue" and other commodities (WTO, 2012). Bellow it will be presented Ecuador's macroeconomic panorama from 2006 to 2016.



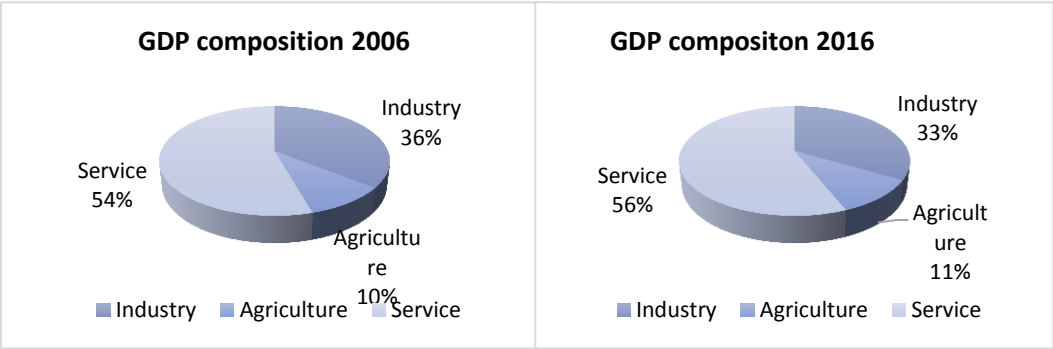
Source World Bank 2017.

Figure 1 Ecuador GDP Evolution



Source World Bank 2017.

Figure 2 Ecuador GDP Growth



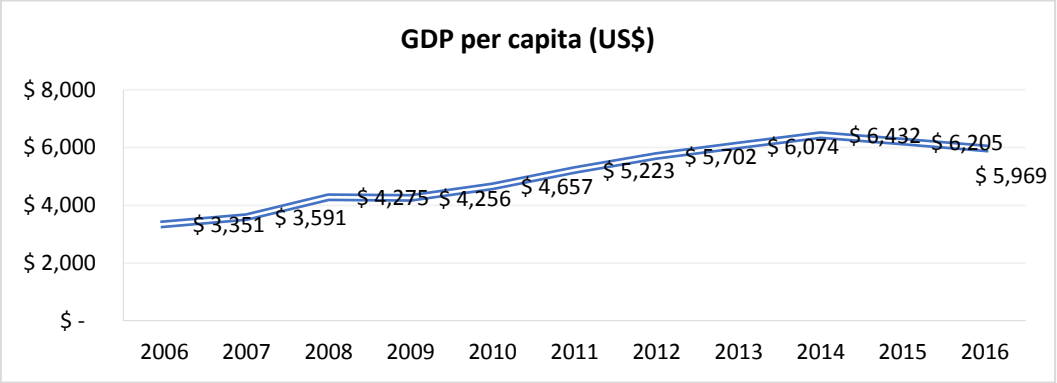
Source World Bank 2017.

Figure 3. Ecuador GDP Composition 2006 and 2016

Ecuador GDP in 2006 was US$46,8 billons and by 2016 it has increased to US$97,8 billion as shown in Figure 1. GDP has almost doubled in ten years mostly due to oil revenues and national policies. Because global financial crisis in 2008, Ecuador faced a period of contraction in 2009 as presented in the Figure 2. Considering this panorama, the government promoted public investment as an economic strategy to invigorate the national economy and encourage economic reactivation in times of crisis, as an anti-cyclical tool in the period of economic contraction.

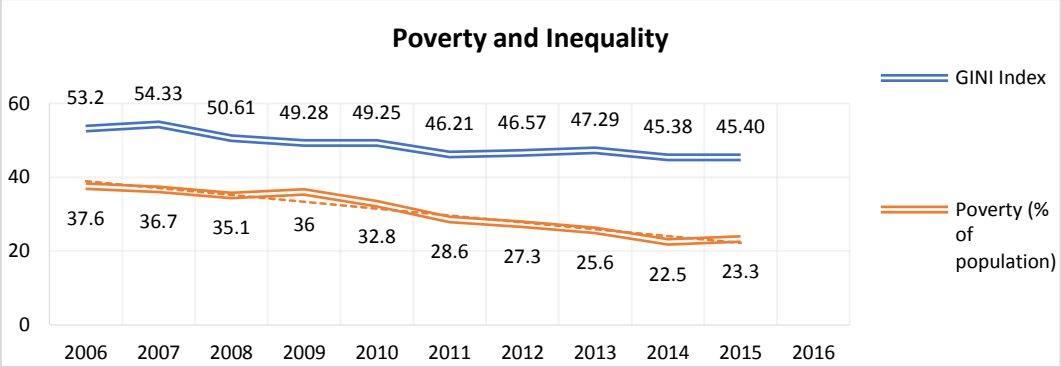
Due to this strategy and to the increase of oil prices (WTI US$110) the economy could recover with the highest growth rate in 2011. The next five

years the economy decelerated since oil prices faced a constant decrease, reaching its lowest levels in 2016 (WTI US$30). Ecuadorian economic growth also declined from 7,87% in 2011 to -1,47% in 2016, showing its high dependence on oil revenues mostly because of the weight of oil in the country's economic relations with the rest of the world which increased (Telegrafo, July 2016). Considering the above-mentioned figures, it can be argued about the importance of the strategies Ecuadorian government has implemented to reduce the dependency on oil and promote other strategic sectors such as foreign trade. Regarding the composition of Ecuador´s GDP, as shown in Figure 3, it has not changed significantly over the last decade. Nonetheless, as presented in the description of Ecuador's trade policy, increase industrial capacity is one of the issues pursued by the government to better respond to the demand of international markets and diversify national exports.



Source: World Bank 2017.

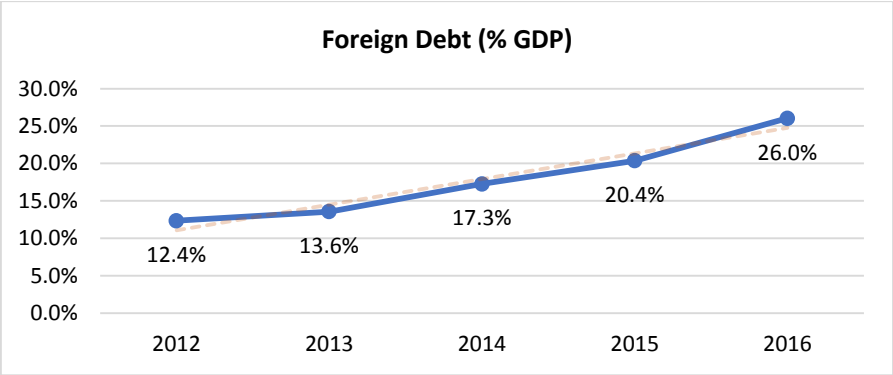
Figure 4. Ecuador GDP per capita



Source: World Bank 2017, HD Report 2016

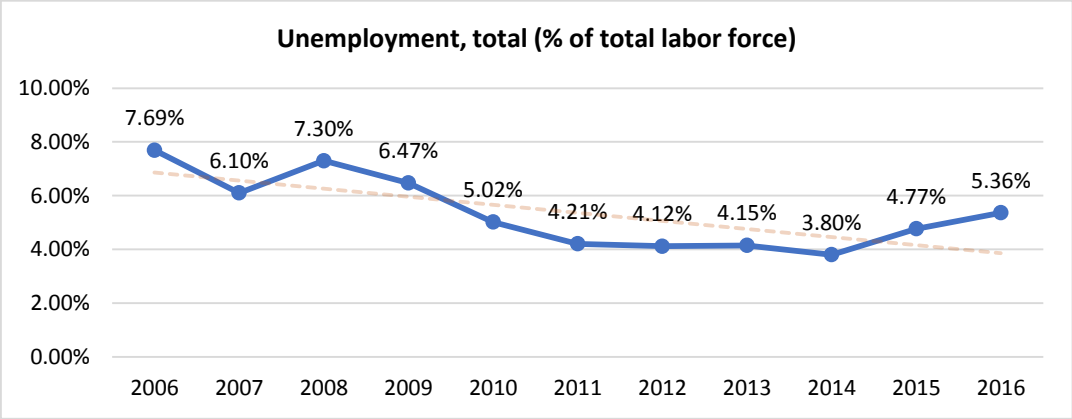
Figure 5 Poverty and Inequality

Additionally, considering the evolution of Ecuador's GDP per capita (Figure 4.) the World Bank ranked Ecuador since 2011 as an upper-middle-income country. This issue has been a recognition for the important changes the country has gone through over the last years such as the reduction of the poverty and inequality due to the social policies implemented by the Ecuadorian government (Figure 5.). However, it has also caused significant challenges for Ecuador. One example is the decline of foreign aid the country has received since it is no longer a priority for many donor partners. Also, a relevant issue is that Ecuador relied on the Generalized System of Preferences (GSP +) with the EU, but because of the ranking of upper-income country, the EU announced that Ecuador was no longer qualified as beneficiary of GSP+ (ECLAC, 2017. Pg.9). Considering these facts, Ecuador is still facing meaningful challenges to effectively become an upper-middle economy such as limited productivity and high dependence on oil revenues. In this matter, the strategy of negotiating and implementing trade agreements and increase its participation in foreign markets represent a feasible option to meet those challenges and continue the social improvements.



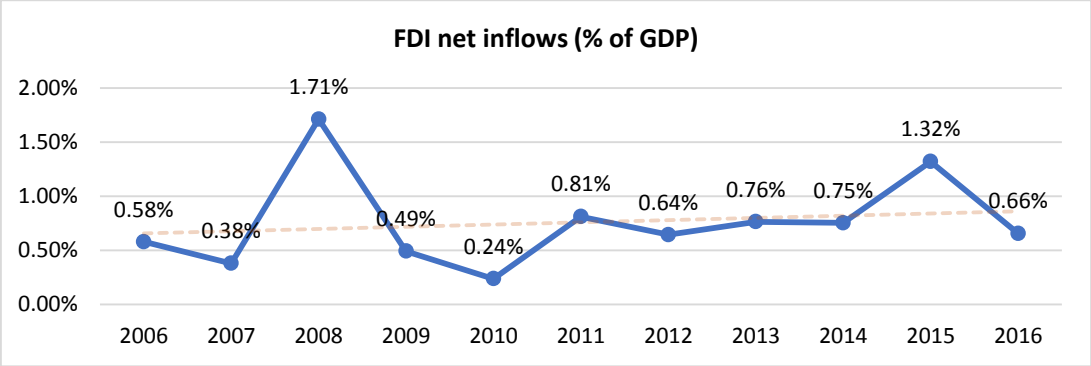
Source: World Bank 2017.

Figure 6. Ecuador Foreign Debt



Source: World Bank 2017.

Figure 7. Ecuador Unemployment



Source World Bank 2017.

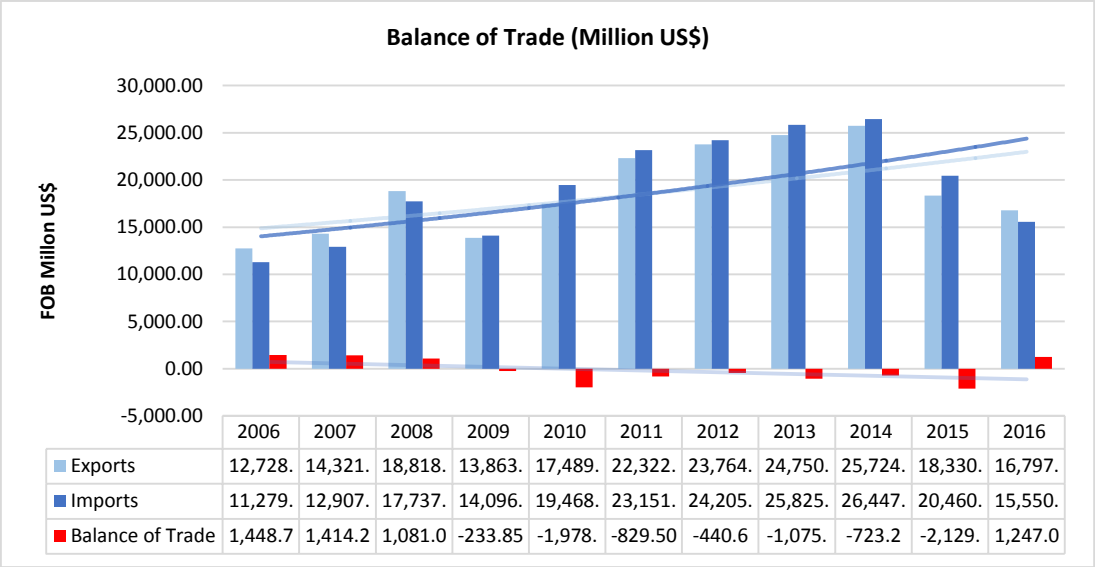
Figure 8. FDI Net Inflows

Moreover, another challenge for Ecuador is creating more income sources since foreign debt and unemployment have increased in the last years as shown in the Figures 6 and 7. Recognizing these issues and the fact that Ecuador has no longer a national currency since the economy depends on the US dollar, which is a severe type of fixed exchange rate, the country needs to increase its revenues and dollar sources to maintain a dollarized economy. One source is foreign direct investment (FDI) and as shown in Figure 8, Ecuador does not have significant inflows of FDI. Even if Ecuadorian government took some actions recently to attract more FDI by passing a public-private partnership law and changing tax and regulatory policies for mining, only 0,66% of GDP was composed by FDI in 2016. In this matter, the emphasis Ecuador is making on foreign trade to increase of exports and a higher participation in foreign markets, by signing more trade agreements, represent a possible solution to overcome these economic constrains.

Trade

When it comes to Ecuador's trade, it can be argued that it mostly relies on commodities exports and finished products imports. In 2016 trade represented 23,7% in Ecuador's GDP, but Ecuador's share in world total merchandize exports is only 0,11% and imports 0,10%. For commercial services it is even less, exports share is 0,04% and imports 0,07% (WTO, 2017). According to WTO rank in world trade, Ecuador ranked 69 in merchandize exports and 80 in merchandize import. For commercial services Ecuador ranked 104 in exports and 89 in imports % (WTO, 2017). Even if foreign trade represents an important component for Ecuador's GDP and a relevant an income source for a dollarized economy, these figures show the limited participation of the country in world trade for both, goods and services. Subsequently, it will be presented

Ecuador's main trade characteristics and the results of some policies applied in this sector.



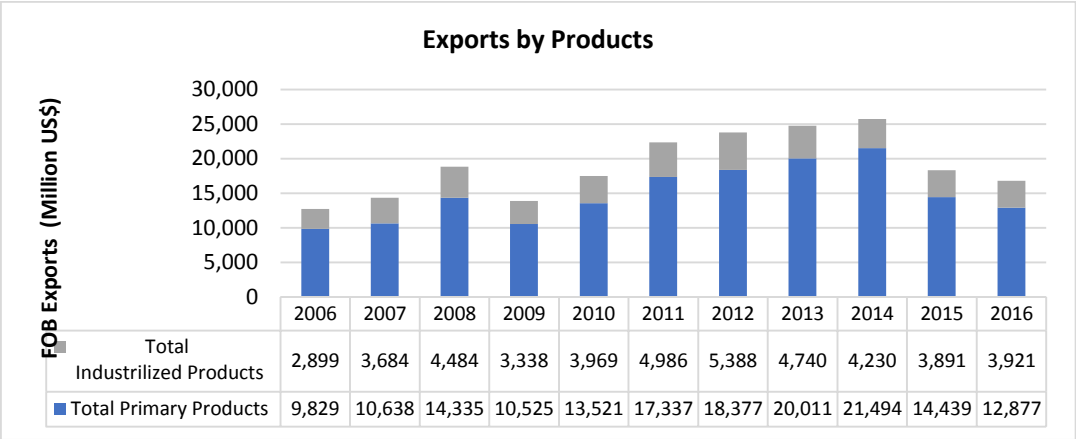
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Exports	12,728.	14,321.	18,818.	13,863.	17,489.	22,322.	23,764.	24,750.	25,724.	18,330.	16,797.
Imports	11,279.	12,907.	17,737.	14,096.	19,468.	23,151.	24,205.	25,825.	26,447.	20,460.	15,550.
Balance of Trade	1,448.7	1,414.2	1,081.0	-233.85	-1,978.	-829.50	-440.6	-1,075.	-723.2	-2,129.	1,247.0

Source: Central Bank Ecuador 2017.

Figure 9. Balance of Trade 2006-2016

The country has faced a harsh international situation that impacted on the country's trade balance. Weak international demand, dollar appreciation, depreciation of the currencies in the region such as the Colombian Peso and the Peruvian Sol, as well as the drop of oil prices, and other commodities are some of the international factors that contributed to Ecuador's negative results on trade. Based on this situation, Ecuador implemented several policies as mentioned before to deal with trade imbalance and improve the terms of trade. As shown in figure 9. Ecuador's balance of trade has evolved negatively in the last ten years for the above-mentioned reasons. Form 2009 Ecuador has had a deficit in trade. Only after the safeguard measures applied in 2015 the balance of trade had a positive result in 2016, because of the decrease in imports.

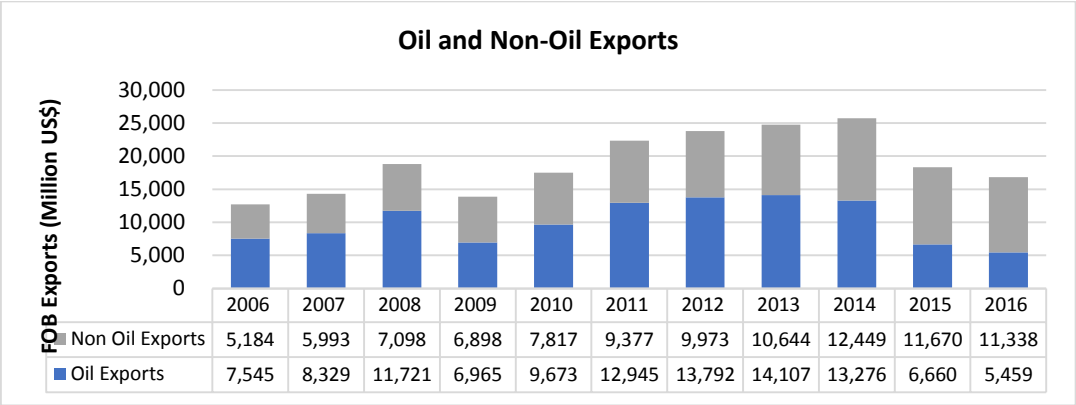
Ecuador's main primary exported products are oil, bananas, shrimp, cacao, tuna, fish, coffee, wood, flowers, abaca and others[5]. Regarding industrialized exports the main products are oil products, sea products, chemicals and pharmaceuticals, metal manufacture, textile manufacture, processed coffee, cacao products, fish flour, hats and others. The following figure shows the evolution of exports by type of product.



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total Industrilized Products	2,899	3,684	4,484	3,338	3,969	4,986	5,388	4,740	4,230	3,891	3,921
Total Primary Products	9,829	10,638	14,335	10,525	13,521	17,337	18,377	20,011	21,494	14,439	12,877

Source: Central Bank Ecuador 2017.

Figure 10. Exports by Product Type 2006-2016



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Non Oil Exports	5,184	5,993	7,098	6,898	7,817	9,377	9,973	10,644	12,449	11,670	11,338
Oil Exports	7,545	8,329	11,721	6,965	9,673	12,945	13,792	14,107	13,276	6,660	5,459

Source: Central Bank Ecuador 2017.

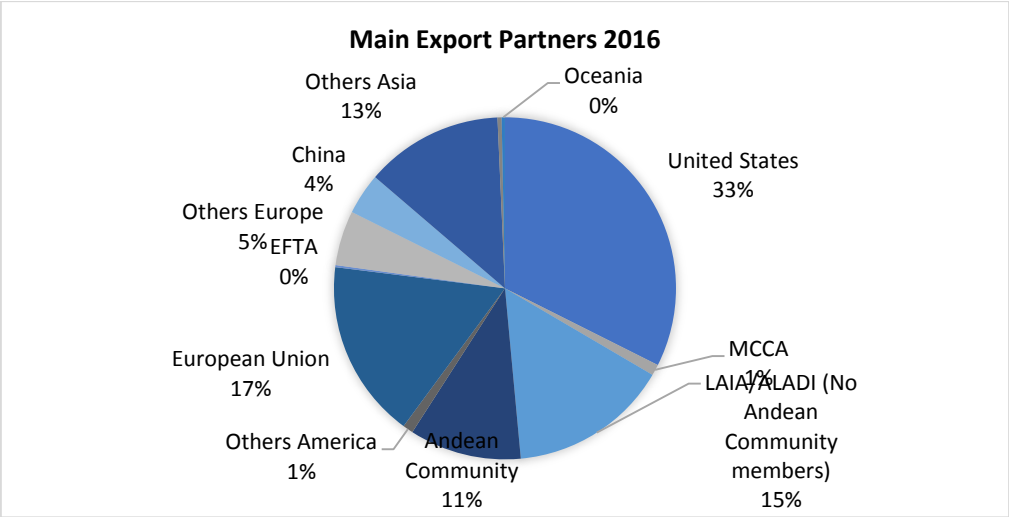
Figure 11. Oil and Non-Oil Exports 2006-2016

[5] Bananas, shrimp, cacao, tuna, coffee, flowers, fish meal, palm oil, coffee preparations are known as traditional Ecuadorian exports (ProEcuador, 2017).

Exports of industrialized products (high value added), on average from 2006 to 2016 accounted for 22.2% of total exports. Exports of primary products (low value added) were concentrated, averaging 77.8%. On the other hand, oil and non-oil exports had a share of 59,3% and 40,7%, respectively in 2006. By 2016 this share changed to 32,5% for oil exports and 67,5% for non-oil exports, because the volume and average unit value of oil and its derivatives barrel exported decreased. These figures show the importance of commodities for Ecuador's exports, but these illustrate the need as well to diversify Ecuadorian exports and more important encourage the production and export of high value-added products to reduce the economic dependence on oil. Additionally, the data analyzed of 2015 shows that Ecuadorian total exports decreased 28,7% compared to 2014. It is the same case in 2016, exports decreased 8,4% compared to 2015. This is a severe issue for Ecuador since it is a dollarized economy and currency devaluations and other monetary policies to boost exports are not an option for the country.

Regarding exports, Ecuador's main trade partners are the United States, clearly Ecuador's first trading partner[6].The second is the European Union (main partner for non-oil exports), followed by Chile (Latin American Integration Association- LAIA member), the Andean Community (Colombia, Peru and Bolivia), China and other Asian countries which are beginning to account for a significant portion of Ecuadorian exports.

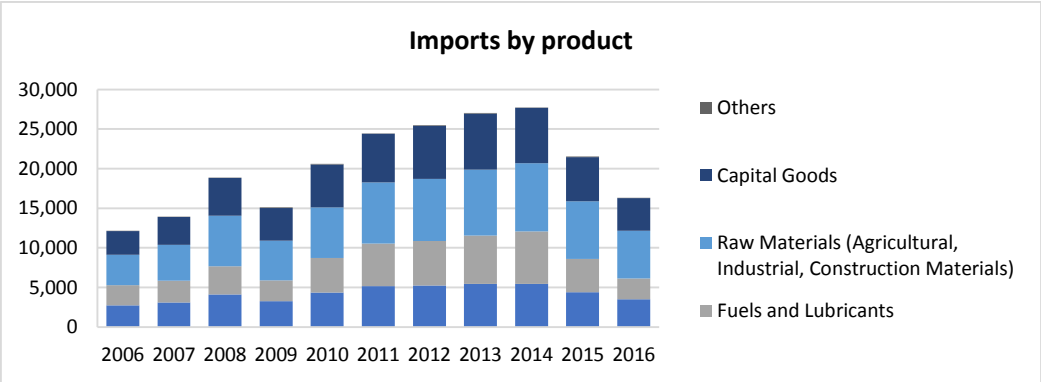
[6] Much of Ecuador's exports to the United States are oil (Central Bank Ecuador, 2017).



Source: Central Bank Ecuador 2017.

Figure 12. Ecuador's Main Export Partners 2016

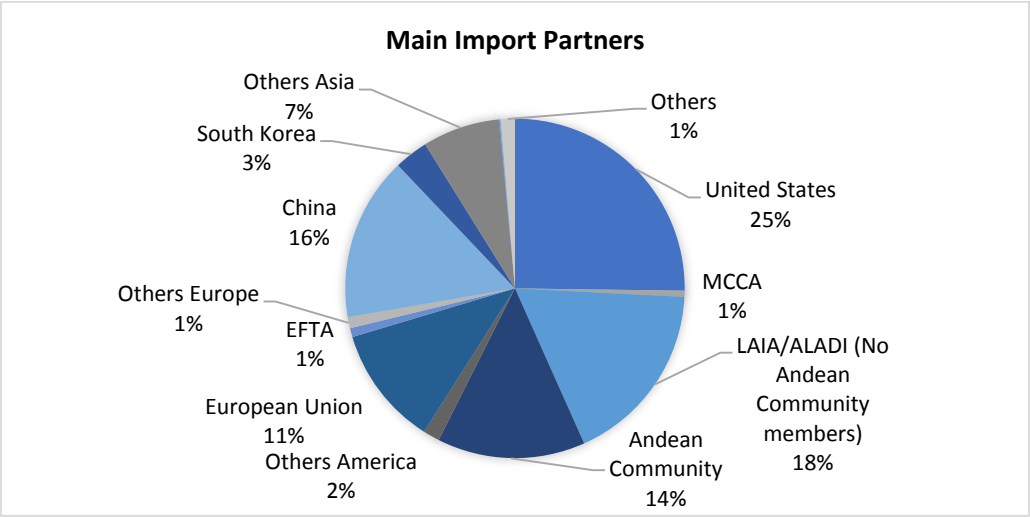
Having presented Ecuadorian export characteristics and figures, imports will be covered. As shown in figure 13. imports had a constant growth until 2015. From this year, the restrictive policies applied by the Ecuadorian government produced an effect on imports. In 2015 total imports decreased 22% compared to 2014. It is the same case in 2016, imports decreased 24% compared to 2015. These effects were more visible in consumers goods imports which safeguards were mostly applied.



Source: Central Bank Ecuador 2017.

Figure 13. Imports by Product

Ecuador's main trade partners in imports are the United States first as well, followed by the Latin American Integration Association- LAIA (Panama, Brazil, Mexico and Chile as the main partners) China, the Andean Community (Colombia, Peru and Bolivia) and the European Union.



Source: Central Bank Ecuador 2017.

Figure 14. Ecuador's Main Import Partners 2016

Concerning service exports and imports, it is important to mention that Ecuador has a tiny share in world trade. According to WTO data, Ecuador's commercial service exports in 2016 were US$1.972 million, comparing the data from 2015 service exports decreased 11%. Commercial service imports were US$3.111 million in 2016 and increased in comparison to 2015 by 9%. The main services exported in 2016 were travel (73,1%), transport (18,9%) and others (8%). Services imported were transport (40,8%), other commercial services (37%) and travel (21,2) (WTO, 2017).

As mentioned above, Ecuador is a "fairly open economy" as WTO stated in its Trade Policy Reports in 2012. To sustain this argument, it is important to consider the trade openness ratio.

	(X+M)/GDP	M/GDP
2006	51,30%	24,1%
2007	53,3%	25,3%
2008	59,2%	28,7%
2009	44,7%	22,6%
2010	53,1%	28,0%
2011	57,3%	29,2%
2012	54,6%	27,5%
2013	53,2%	27,2%
2014	51,0%	25,9%
2015	38,7%	20,4%
2016	33,1%	15,9%

Source: Central Bank Ecuador 2017.

In the case of Ecuador and according to the trade openness ratio, it can be argued that the country has had a negative evolution in trade liberalization[7]. As presented above, recognizing the weak situation for Ecuador regarding the external sector, foreign trade represents a vital tool for the country to overcome its current challenges. This is the main motivation for Ecuador to get involved and promote trade agreements as a strategy to liberalize Ecuadorian economy and boost Ecuadorian exports world-wide. This strategy is expected to increase the volume of trade with traditional partners and create trade relations with new partners to find new markets for national products. After presenting Ecuador's economic and trade general panorama, trade relations with the European Union (EU) will be covered as a basic input for the later analysis of the Multiparty Agreement between Ecuador and the EU.

[7] Trade openness ration is used as a measure of the openness of a country to international trade, as an indicator of the degree of globalization of an economy (ECLAC, 2016).

ii. Trade Relations Ecuador – European Union (EU)

The EU is a unique, treaty-based institutional framework countries created in 1993, that defines and manages economic and political cooperation between its members. The European economic cooperation started in 1951 with the participation of Germany, Belgium, France, Italy, Luxemburg and the Netherlands. Currently, after the accession of Croatia on July 2013 the EU has become the largest economy with 28 members, but it is expected the withdrawal of the United Kingdom (EU, 2017). Even considering the current situation, the EU is the largest economy in the world, the biggest exporter and importer, the leading investor and recipient of foreign investment and the biggest aid donor. The EU has only 7 % of the world's population (508 million in 2016), but it accounts for over one quarter of the world's wealth in terms of GDP (GDP per capita is about US$35.000) and 16,5% of world imports and exports share (European Commission, 2016).

This economic and political union, as the greatest common market in the world, has outward-oriented policies and promotes trade liberalization arguing its importance for economic growth and job creation. The EU has a common international trade policy, so the EU acts as a single entity on trade issues, including issues related to the World Trade Organization (WTO). Under these principles, the European Commission negotiates trade agreements and represents Europe's interests on behalf of the EU Member States with its multiple partners world-wide, mostly Free Trade Agreements. Nonetheless, with less developed countries, EU policy tries to combine trade and development as one of its strategies, so trade could be a tool to reach economic growth (European Commission, 2016). In general terms, the EU has a regional approach when negotiating FTA and other trade agreements with its partners.

Subsequently, regional relations between EU and the Andean Community will be explained before presenting EU- Ecuador trade relations.

a. Regional relations

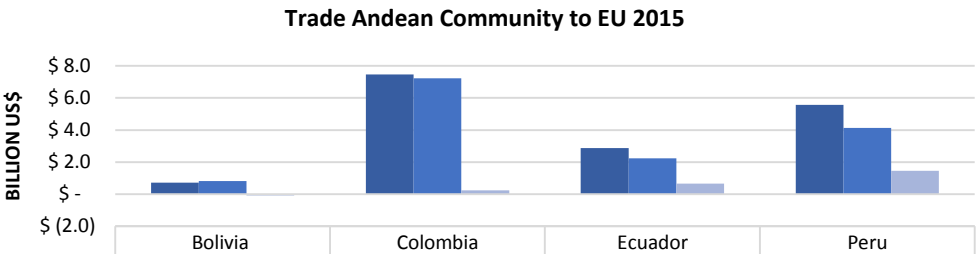
The EU has intensified its trade relations with Latin American over the last years considering a regional and sub-regional approach. EU-Mercosur, EU-Central America and EU- Andean Community[8] are some examples of this policy. EU started political dialogue with the Andean Community 1996 with the Declaration of Rome. Later, this instrument was replaced by the Political Dialogue & Cooperation Agreement a framework signed in 2003, but it has not entered into force yet. EU has a Regional Strategy Paper 2007-2013 for the Andean Community which consider three major sectors as mutual priorities: Social Cohesion, Regional Economic Integration and Fight Against Illicit Drugs. The EU has €50 million budget for this regional strategy (European Union External Action, 2017).

Regarding regional trade relations, EU tried regional negotiations for a trade agreement, but these did not flourish because of difference inside the regional bloc. Considering this situation, the EU proposed multi-party trade negotiations with the Andean Community countries willing to begin a comprehensive trade negotiation. Only three of the Andean Community countries Peru, Colombia and Ecuador started this process in February 2009. However, the negotiations were successful only with Colombia and Peru, concluding in March 2010.

[8] The Andean Community was founded in 1969 as a customs union that grants free mobility and trade to goods exported between the member countries and originated in the sub-region. After the withdrawal of Venezuela in 2006, currently it comprises four countries: Bolivia, Colombia, Ecuador and Peru (European Union External Action, 2017).

Ecuador suspended its participation in July 2009 (European Union External Action 2017).

The EU is the third-largest bilateral trading partner and one of the principal investors for the Andean Community. In 2015, total trade between these regional blocs was worth around €27.7 billion. Commodities are mainly exported to the EU by the Andean countries, such as: agricultural products 46.7%, fuels and mining products 39%. On the other hand, EU exports manufactured goods comprising machinery and transport equipment 44.9% and chemical products 18.8%. Colombia and Peru which have already concluded a trade agreement with the EU represent the biggest share of trade with the EU from the Andean Community (European Commission, 2017). Trade is mostly positive for Colombia, Peru and Ecuador with the EU.



	Bolivia	Colombia	Ecuador	Peru
Exports	$ 0.7	$ 7.5	$ 2.9	$ 5.6
Imports	$ 0.8	$ 7.2	$ 2.2	$ 4.1
Balance	$(0.10)	$0.23	$0.66	$1.44

Source: UN COMTRADE DATA BASE, 2017

Figure 15. Trade Andean Community to EU 2015

Regional relations with the EU are relevant for all member countries of the Andean Community. Consequently, encouraging trade between regions is basic to enhance political relations and more important reach this huge market with more benefits for Andean exporters. Under this macro goal the Multiparty Trade Agreement with the EU was materialized including three of the four

countries members of the Andean Community expecting to improve trade relations.

b. Bilateral relations

As mentioned before, EU priority for trade was based on a regional strategy. This is the case of trade relations with the Andean Community. Nonetheless, EU also maintain bilateral political and commercial relations with its partners world-wide. In the present section, EU-Ecuador trade relations will be described based on a historical review and a data analysis of a ten years period from 2006 to 2016, before the implementation of the Multiparty Agreement. The results of the Agreement implementations will be further covered in the next chapter.

Ecuador-EU trade and cooperation relations started in 1993, when the EU signed a Cooperation Framework with the Andean Community. In 2001 EU and Ecuador signed the Framework Agreement on Cooperation as a legal and technical framework to define the priorities of cooperation for both partners. Then, Multiannual Indicative Programs (MIP) have been stablished to define the cooperation strategy of the EU in Ecuador. However, as an upper middle-income country, EU argued that "Ecuador should in principle graduate from the EU's bilateral cooperation" so in December 2013, the European Commission, the European Council and the European Parliament decided to make an exception and continue cooperation with Ecuador for a phase-out period 2014-2017. Ecuador MIP 2014-2017 was elaborated in the perspective of phasing out bilateral development cooperation in the country. In this strategy, sustainable trade is one of the component to which EU will support the country with financial and technical cooperation with an amount of €10 million. Based on

this component, there were designed several actions meant to support Ecuadorian exporters and national institutions to enhance capacities to better respond to the Trade Agreement with the EU (MIP 2014-2017- EU). Since 2003, EU has an office in Quito-Ecuador, which depends on the regional office of the European Commission in Bogota. The EU delegation in Ecuador oversees topics such as: Multiparty Agreement, Cooperation programs and Al-Invest program.

Trade

Regarding trade, EU granted Ecuador as many other developing countries EU's unilateral tariff preferences, the Generalized Scheme of Preferences (GSP+)[9]. Under this scheme most Ecuadorian products benefited from preferential, "a regime granted to developing countries that comply with certain agreements on human rights, sustainable development and good governance" (European Union, 2017). It allowed the entrance of almost 6000 products to the EU with 0% or very low tariffs. However, in 2013 the European Union "officially announced that Ecuador would maintain such preferences only until 31 December 2014" (ECLAC, 2017. Pg.9). In this panorama, Ecuador negotiated and signed the Multiparty Agreement with the EU in December 2014, expecting to maintain and increase trade preferences of its exports to this political and economic union. This issue helped Ecuador to maintain the benefits of SGP+ until the Multiparty Agreement was ratified and implemented. This matter will be further covered in the next chapter.

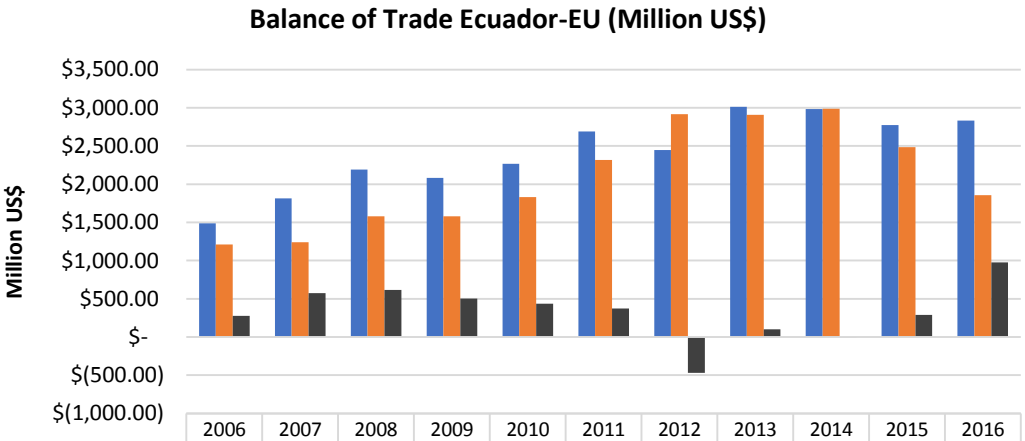
[9] The GSP+ is a component of the EU Generalized Scheme of Preferences ('GSP') for developing countries, "it offers additional trade incentives to developing countries already benefitting from GSP to implement core international conventions on human and labour rights, sustainable development and good governance" (European Commission, 2017).

EU represent for Ecuador its main trade partner after the United States. EU is the second market for Ecuadorian exports. Non-oil exports have been characterized by having as destination market the European Union. However, several years ago North America, specifically the United States, has increased its share thanks to the sale of shrimp, tuna and raw gold, thus North American participation in 2015 was 28% against the European Union which reached 24% (Ministry of Foreign Trade, 2015). Even under this new scenario, EU accounts for almost 17% of the country's total exports and 11% of imports (2016); particularly non-oil exports. Ecuadorian exports to the European market are concentrated in a few products, most of them corresponding to the area of fruits, vegetables, fish, shrimp, tuna, coffee and tea known as traditional products. Nonetheless, there is great export potential for other non-traditional products, which have already entered the European market and have had positive prospects to attract more investment to expand its access and distribution (FEDEXPOR, 2009).

Inside the EU market, Ecuador competes with several countries of Latin America and Africa. The main competitors in the region are well known to be Colombia and Peru, for the similar exportable product supply (FEDEXPOR, 2009). Additionally, since 2013, the European Union is implementing the Multiparty agreements with Colombia and Peru, which altered the conditions of competition of some Ecuadorian products in that market. Even though Ecuador was granted with some preferences under the GSP+, it was not a guarantee for better conditions in comparison to our neighboring countries, harming national competitiveness.

Ecuador’s balance of trade with the EU have evolved in positive terms over the last ten years. From 2006 Ecuadorian exports incremented progressively since

tariffs on Ecuador's banana reduced after the trade dispute before the WTO (Terán M. 2012). However, because of the global crisis, non-oil exports to the European Union declined during this period. After 8 years of facing a complex economic scenario, the European Union continues to have problems in achieving the commercial levels that it maintained before the crisis period. It is expected that after the Multiparty Agreement implementation non-oil Ecuadorian exports will recover and increase (Ministry of Foreign Trade, 2015). Despite having this complicated scenario, only in 2012 Ecuador had a deficit with the EU. In general terms, exports have increased in an average 7% in the period 2006-2016. Imports on the other hand, have an average of increase of 6%. However, it is important to mention that 2015 and 2016 imports decreased 17% and 25% respectively because of the safeguards implemented by Ecuador, improving the balance of trade with the European bloc since terms of trade were increasingly negatives in the last years.

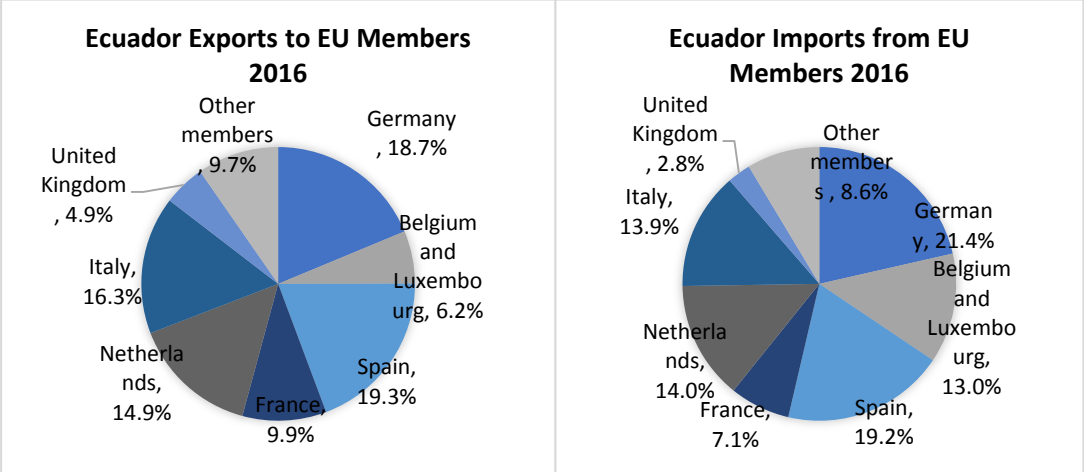


	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Export to EU	$1,487	$1,812	$2,192	$2,081	$2,265	$2,689	$2,445	$3,011	$2,981	$2,772	$2,831
Imports from EU	$1,210	$1,240	$1,578	$1,580	$1,828	$2,318	$2,914	$2,908	$2,986	$2,482	$1,857
Balance	$277.0	$572.0	$613.7	$501.0	$436.5	$370.9	$(468.	$102.2	$(4.89	$290.0	$974.2

Source: Central Bank Ecuador 2017

Figure 16. Balance of Trade Ecuador-EU

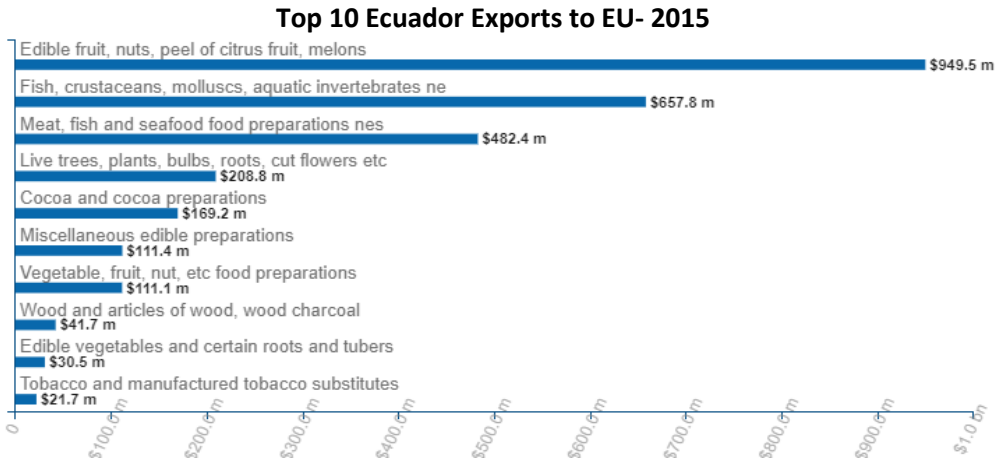
Within the European Union, Ecuador's main trade partners are Spain, Germany, Italy, Netherlands, France, Belgium and Luxembourg and the United Kingdom. According to data of Ecuador's Central Bank, these members concentrate 90% of Ecuadorian exports to the EU in 2016. Also, the above-mentioned members concentrate 92% of imports to Ecuador in the same period.



Source: Central Bank Ecuador 2017

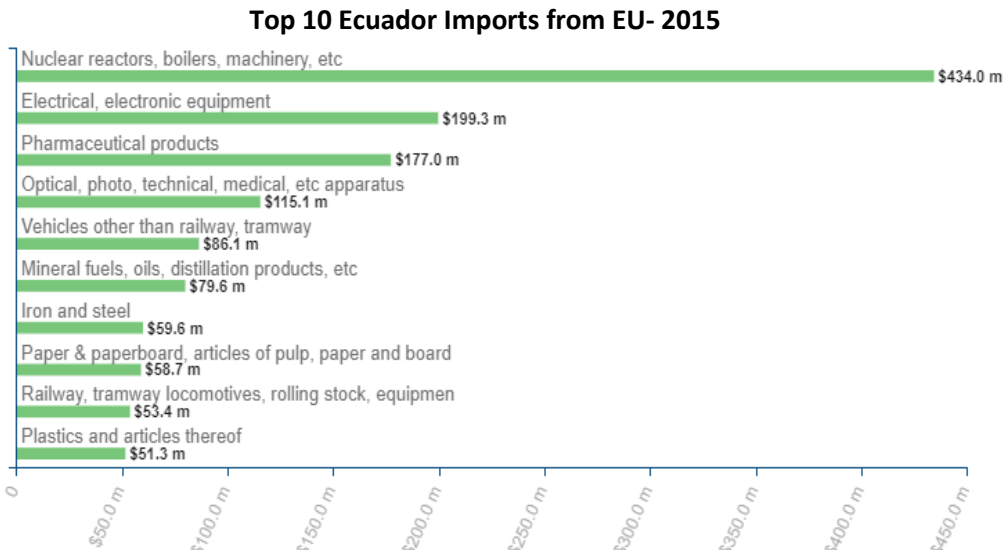
Figure 17. Ecuador- EU Imports and Exports 2016

Regarding Ecuador's exports to the EU, Ecuador mostly relies on agricultural goods and low value-added manufactures, as shown in Figure 18. On the other hand, EU exports to Ecuador machinery, pharmaceutical products, fuels and mineral oils, and other manufactured goods (Figure 19.). Even if the trade balance is beneficial for Ecuador, the country's dependence on commodities is a problem for exports competitiveness.



Source: UN COMTRADE, 2017

Figure 18. Top 10 Ecuador Exports to EU- 2015



Source: UN COMTRADE, 2017

Figure 19. Top 10 Ecuador Imports from EU- 2015

According to UNCOMTRADE data, in 2015 EU imports from Ecuador were only 0,1% of its trade, but for Ecuador's economy this amount is about 17% of its exports. Considering the figures of trade flows between Ecuador and the EU, it can be argued the relevance of the European market for the Ecuadorian economy. Since Ecuador is trying to decrease oil revenues dependence,

increasing trade with one of the major non-oil importer of Ecuadorian products is an imperative action for Ecuador. Additionally, Ecuador is trying to diversify its exportable product supply and increase the value-added component of Ecuadorian exports, so in this aspect, economic agents of both Ecuador and the European Union are aware of the potential of non-traditional products, and processed traditional products trade. These matters are expected to be enhanced by the Multiparty Agreement regarding exports promotion, access to markets and investment opportunities for Ecuador and the European Union.

Besides the current issues, it is important to mention that in the past EU and Ecuador faced a few commercial encounters. These disputes affected political relations and trade inflows. Therefore, it is of relevance to present them to better understand trade relations between Ecuador and EU and the conditions that led to the negotiation and implementations of the Multiparty Trade agreement.

Trade Disputes

Ecuador and EU were involved in the Banana's case, a trade dispute to the World Trade Organization (WTO) concerning EU's banana import regime. Given Ecuador's status in the global market, bananas play a significant role in its domestic economy. Ecuador is a member of the WTO since 1996 and the EU (before known as the European Communities) is a member since 1995. It is relevant to mention that Ecuador had to be the first country to be voted as a member of the WTO[10]. This unique issue responded to the negative response of the European Communities regarding Ecuador's accession to the WTO. It is

[10] Ecuador became the 129th WTO Member on 21 January 1996. It was the first country that did not had a consensus for its accession to the WTO, but it was voted to become a member (Van den Bossche, P., Zdouc, W., 2013).

argued that this situation was motivated by the discomfort of Ecuador to the EU's banana import regime, so "Ecuador rushed its WTO accession to join the proceedings" against this regime (McCall Smith, J, 2006). Ecuador used WTO Dispute Settlement Procedure to defend its trade interests. The country and other complaints (Guatemala; Honduras; Mexico; United States) sued the EU to the WTO because the import scheme violated the non-discrimination principle of the WTO by a tariff quota. The market access difference originated when the European Community in 1993 inclined the banana regime in favor of African, Caribbean and Pacific (ACP) countries, since they enjoyed deep-rooted economic ties to former colonial powers and domestic suppliers (McCall Smith, J, 2006). This regime was found illegal by the WTO in 1997, and later a revised scheme implemented in 1999 was also found illegal. In this same year, the WTO authorized US to impose trade sanctions to the European Communities.

After passing for a transitional tariff quota, a flat tariff system was implemented by 2006 with the agreement of the parts. Nonetheless, since 2006 the European Union banana import regime of "tariff only" applied an import tariff of €176 per ton to Latin American bananas entering the EU, while the fruit from ACP countries was imported with 0% tariff to the EU. For more than ten years, the EU has been sued on several occasions because of its failure to comply the decisions of the WTO, violating the agreements with the parties (Terán M., 2012). Finally, in December 2009, the European Union reached a historic agreement with Latin American banana suppliers, the so-called "Geneva Agreement on Trade in Bananas" which states that EU will gradually decrease European tariffs on banana imports, from the tariff of €176/ton to €114/ton in a term of 10 years. This agreement provided a "final settlement of all current

disputes regarding the EU import regime on bananas upon certification of a new EU tariff schedule." (WTO, 2017).

This dispute has been one of the longest-running disputes in the framework of the multilateral trading system. Nonetheless, since Ecuador is the world's leading exporter of bananas and constitutes a very important chapter in Ecuadorian exports, this proceeding to the WTO represented an imperative for Ecuadorian trade interests. It is important to mention that the discrepancies on the tariffs of Ecuadorian bananas entering the EU market were one of the reasons why the negotiations process of the Multiparty Agreement with Colombia and Peru was cancelled by the Ecuadorian government in 2009. Once this issue was solved, and as the former Ministry of Foreign Trade argued, "Ecuador was in a better position to negotiate", the negotiations were reintroduced (Ministry of Foreign Trade, 2015).

Additionally, it is important to consider that Ecuador resumed the negotiation process because the European Union officially announced in 2013 that Ecuador would maintain the Generalized Scheme of Preferences (GSP+) only until 31 December 2014 (ECLAC, 2017. Pg.9). This regime allowed the preferential entrance of almost 6000 products to the EU with 0% or very low tariffs. Thus, without the preferential regime Ecuadorian exports were no longer competitive in EU's market. Under these conditions, Ecuador negotiated and signed the Multiparty Agreement with the EU in December 2014, expecting to maintain and increase trade preferences of its exports to this political and economic union.

Consequently, as presented above, these historical and political conditions altered the commercial relations between Ecuador and the EU and more

important affected the regular pace of the negotiation process of the Multiparty Trade Agreement. It was important to understand the Ecuadorian trade policy and the historical evolution of EU-Ecuador trade relations to have a better understanding the relevance of the Multiparty trade agreement for the country's economy and development. Since Ecuador is pursuing important changes related to the transformation of the productive matrix, a reduction of oil revenues dependence and an increased share in international markets, free trade with the European Union, as one of the most powerful economies and the greatest common market, represents for Ecuador a milestone for its economic development. In the next chapter the negotiation process and the results of this Agreement implementation will be covered.

CHAPTER II

CASE STUDY MULTIPARTY TRADE AGREEMENT EU- ECUADOR, COLOMBIA AND PERU

i. Background

The Multiparty Trade Agreement is a comprehensive trade agreement between the Colombia, Peru, Ecuador and the EU. As described before, this Agreement was supposed to be negotiated between economic blocs the EU for one side and the Andean Communities on the other. However, because of political differences, this regional Agreement was not achieved. Under these conditions, the Multiparty Trade Agreement had two phases. One was the negotiation process between Colombia, Peru and the EU, and the second phase with the accession process of Ecuador. Even if there has not been any progress, Bolivia is also expected to join this Agreement in the future.

Colombia and Peru have had aggressive policies for trade liberalization in contrast to Ecuador's conservative policy. Trade liberalization by signing FTAs has been the strategy for these economies, while Ecuador was cautions and mostly adverse to this kind of trade agreements. In the case of Colombia, this country launched in 1990 an accelerated program of trade liberalization, which was meant to increase Colombia's competitiveness, diversify its production and promote integration in the world economy (WTO Policy Report, 1992). To fulfill this program, Colombia has participated in various negotiations of bilateral and regional agreements, as basic elements of foreign and trade policy to ensure preferential access to strategic markets, diversify export markets and maintain peace in the region (Ibid). As stated by the Policy Review Report of

the WTO in 2012, Colombia is known to be “a substantially open trade regime” and its trade policy focused mainly on the negotiation of preferential agreements (WTO Policy Report, 2012). With this perspective, Colombia has actively participated in the consecution of FTA and PTA for the country. Until now, it has signed 12 FTAs of which ten entered into force: Pacific Alliance, Costa Rica, South Korea, European Union, EFTA, Canada, Northern Triangle (El Salvador, Guatemala and Honduras), Chile, U.S and Mexico and six PTAs. Colombia also concluded a trade agreement (not yet in force) with Panama, MERCOSUR and Israel (SICE-OAS, 2017).

Peru has had a similar trade policy evolution. Since the 90’s Peru's trade policy was focus on trade liberalization “to provide non-distorting incentives that allow an efficient allocation of resources and foster the development of economic activities according to market signals” (WTO Policy Report, 2000). Over the years, this country has implemented policies to facilitate trade by its program of unilateral tariff liberalization and issuing new laws on customs, government procurement, intellectual property rights and other regulatory framework to promote competitiveness and investment (WTO Policy Report, 2007). Additionally, as Colombia, Peru has had an active participation in regional and bilateral trade agreements. Since 2007, Peru has negotiated several regional trade agreements, 16 of which have entered into force: Canada, Chile, China, Costa Rica, EFTA, European Union, Honduras, Japan, South Korea, Mexico, Panama, Singapore, Thailand, US, Pacific Alliance, MERCOSUR and one PTA with Venezuela. Peru also negotiated trade agreement (not yet in force) with Guatemala and the Trans-Pacific Partnership (TPP) (SICE-OAS, 2017).

For Ecuador on the other hand, FTAs are still a sensitive topic because of the volatility of Ecuador’s economy to external shocks, but since the strategy of

trade agreements promotion has been implemented more are preferential agreements are pursued. Nonetheless, the difference regarding the number of FTA signed by Colombia and Peru clearly shows the divergent paths these countries have taken while talking about trade liberalization compared to Ecuador. As mentioned before, Ecuador has only signed six PTAs, three more are still being ratified and other three are in negotiations. The Multiparty Agreement with the EU is the first so called FTA for Ecuador. However, even though Ecuador is still far behind in number of regional and bilateral trade agreements and a latecomer in trade liberalization in the region, to have signed and now implementing the Multiparty Trade Agreement is a milestone for all three countries' trade liberalization policies. In this matter, it is relevant to analyze the process of negotiations and outcomes in the implementation of this Agreement for Colombia and Peru, to evaluate possible effects on Ecuadorian trade.

Having presented this background information, this Chapter will cover the negotiation processes of the Agreement and present a brief review of the document. Additionally, the results of the Agreement implementation for Colombia and Peru will be presented and analyzed in order to have a comparative scenario for the current and future outcomes for the Ecuador.

ii. Negotiation process between Colombia, Peru and EU

The European Union has had an active policy to negotiate comprehensive free trade agreements with regional groupings, and so the case with the Andean Community. The EU plays a leading role in the dynamics of trade for the Andean Community and represents a significant export destination market. As the EU mentions, trade agreements "grant privileged access to the markets of

the countries concerned and are an accepted exception from the basic WTO principle that all trading partners should be granted equal treatment." (European Commission, 2016). FTAs are the mechanism and for the EU these can be different depending the country, or group of countries involved in the negotiation since trade partners have different interests, so the contents are tailored to each specific situation. Modern EU trade agreements cover different sectors, issues and specify a timetable for individual product tariff reductions. Also, they will include non-tariff matters ranging from intellectual property to public procurement (Ibid). In brief, EU apply comprehensive agreements in both scope and depth. With this type of agreements and the "Global Europe" strategy, EU opened trade negotiations in 2007 with the Andean Community and other sub-regions giving priority to those who had negotiated or in process of negotiating FTAs with the United States, since EU was concern about Latin American market share (European Parliament- Policy Department, 2016).

EU- Andean Community trade negotiations process started in 2007 with the EU's initiative of bloc-to-bloc negotiations. However, this type of negotiations did not flourish because of differences inside the regional bloc. It is the case of Bolivia which "objected to the inclusion in the negotiations of stronger intellectual property rights protection of the kind that developing states had rejected within the WTO Doha Round" (European Parliament- Policy Department, 2016). Ecuador initially engaged in negotiations as well, but it withdrew arguing the matter of intellectual property rights and inconsistency with the Ecuadorian development policies. Consequently, the EU replaced the method by negotiating with individual states under Multi-Party Trade Agreement only with Peru and Colombia. It is important to mention that these

countries had already negotiated and signed trade agreements with the United States in 2008) (Ibid).

The negotiation process for Colombia and Peru were guided under the scope of a trade agreement (PECO-TA12), dealing specifically with trade topics.[11] Two years and seven months were spent for the negotiation of the Multiparty Trade Agreement, in which three rounds were conducted under the CAN-EU format and nine rounds, under the multiparty format between EU, Colombia and Peru. The negotiations also involved 4.170 participants in 284 meetings with civil society (Ministry of Trade, Industries and Tourism, Colombia, 2013). During the Sixth Summit of Latin America, the Caribbean and the EU in 19 May 2010, after the successful completion of the negotiations, the final text of the Trade Agreement between the European Union and Colombia and Peru was formalized. Then, after the legal review process was completed, the final text was authenticated and then translated into the 21 official languages of the European Union for its authentication as well. Once the process was completed, the Agreement was signed in Brussels by Colombia and Peru representatives and the Commissioner of Commerce of the European Commission, on June 26, 2012. The Agreement provides progressive and shared liberalization through a comprehensive and balanced free trade area as stated by the EU. It started its application in March 2013 for Peru and August 2013 for Colombia (European Parliament- Policy Department, 2016). As mentioned above, the different approaches of Colombia and Peru when it comes to trade policy, led to the negotiation and implementation of the Multiparty Trade Agreement with the EU earlier than Ecuador's.

[11] The cooperation pillar of the relationship is covered by the earlier Political Cooperation Agreement between the EU and the Andean Community (AC-PCA03) (European Parliament-Policy Department, 2016).

iii. Negotiation process between Ecuador and EU

In 2009, Ecuador withdrew from the EU- Andean Community Trade Agreement negotiations arguing the clauses of the agreement were not in harmony with the policies and ideals of development pursued by the country (Cueva D., 2014). Also, as presented above, Ecuador was opposed to continue the Trade Agreement negotiations because of the matters on intellectual property rights. However, in 2013 after a policy shift arguing that "Ecuador has become a much more developed country and prepared to negotiate with an economic and trade bloc like the European Union", the country initiated dialogues with the EU to resume negotiations (El Comercio, 2014). Other factors motivated Ecuador to negotiate again with the EU. One incentive was the Geneva Agreement on Trade in Bananas of 2009, the final solution for the banana case dispute, which was meant to reduce European tariffs on banana imports, a key product in the balance of exports from Ecuador. Another, factor was that the country was facing a less competitive position in the EU market than neighboring countries Colombia and Peru which had already signed the Multiparty Agreement with the EU. The final factor was that preferential access to the EU market GSP+ was about to expire by the end of 2014 due to the EU's reform of this scheme. Almost 85% of Ecuadorian export benefited from this preferential access. Under these conditions the Ecuadorian government returned to the negotiation table.

Since the visit of President Rafael Correa to Europe in April 2013, the possibility of resuming the dialogues with the EU to sign the Multiparty Agreement was activated. Consequently, the reactivation of the negotiation occurred in 2014 and last almost a year including 4 rounds of negotiation. During negotiations the differences in intellectual property, public procurement

and services, which were of particular concern for Ecuador were minimizing. Then, in the last round a final agreement was reached after the approval of the Ecuadorian President. During the last semester in 2014, a bilateral legal review was carried out of texts negotiated part of the Protocol of Accession of Ecuador to the Trade Agreement. This review process culminated on December 2014 and the text of the Protocol and its annexes were translated into the official languages of the EU. Once the text was analyzed by the EU Council, it authorized the final official subscription. Additionally, the Protocol of Accession of Ecuador was presented within the Committee of Commerce of the Multiparty Agreement involving the EU, Colombia and Peru, since the Protocol includes amendments to that agreement. Following the signature of the Protocol in November 2016, the instrument was constitutional reviewed by Ecuadorian Constitutional Court, approved by the National Assembly and ratified by the President of the Republic in December 2016. In case of the EU, the instrument was ratified by the European Parliament by the end of 2016. Since January 2017 the Multiparty Agreement came into force for Ecuador (Ministry of Foreign Trade, 2014, 2016).

Moreover, it is important to mention that during the negotiations of the agreement, it was approved an extension of the GSP+ tariff preferences for a period of 24 months, counted from January 1, 2015, until the Trade Agreement was being ratified in accordance with the internal procedures of both Parties. In the same way, a resolution was issued by Ecuador that establishes the “freezing of tariffs and trade rules ("stand still") with the EU”, having received similar treatment from the European Union that maintained GSP + preferences for Ecuadorian products (COMEX Plenary Resolution No.042-2014).

According to the Ecuadorian government, the Multiparty Agreement is a "balanced agreement with the European Union, which maximizes opportunities, reduces costs to the minimum, respects the country's development model and allows us to protect our sensitive sectors", announced the former Minister of Foreign Trade when negotiations were finalized. (The Universe, 2014). Additionally, Ecuador expectations of the agreement are related with an increase of technology transfer and investments to continue the national goal of transforming the productive matrix. President Rafael Correa argued that the Multiparty Agreement is not a free trade agreement since it considers the asymmetries of the economies and trade relations, calling it a Trade Agreement for Development (Cueva D., 2014), while the European Commission calls it a Comprehensive Trade Agreement. Furthermore, it is important to consider that if Bolivia joins the Agreement, which is a possibility in the next years, an interregional Trade Agreement could be achieved, thus fulfilling the EU's regional integration and market access ambitions.

Once presented the process of negotiation of the Trade Agreements for the parties, the Agreement document will be reviewed briefly to analyze the particularities of text and the implication for the states involved.

iv. Brief review and analysis of the agreement

The Trade Agreement with the European Union defines clear and predictable rules on the trade of goods, services and investment flows. The Multiparty Agreement text between EU- Colombia and Peru is composed of 14 Titles covering all matters that were negotiated, being the most important the Title III dealing with Market Access, which involves the tariff reduction for agricultural goods, as well as industrial goods. The following section is a brief review of the

document. In the case of Ecuador, it joined the Multiparty Agreement with a Protocol of Accession, which particularities will be reviewed in the next section.

The first Title (I) of Initial Provisions contains essential elements related to the protection of human rights and the rule of law as well as commitments with disarmament and non-proliferation of weapons of mass destruction. In General Provisions, it is stablished the Free Trade Area, according to the GATT and GATS, for a progressive and gradual liberalization of trade in goods and services; customs and trade facilitation, standards, technical regulations and conformity assessment procedures and sanitary and phytosanitary measures; better conditions to increase investment flows; opening of government procurement markets of the Parties; protection of intellectual property rights; establishment of a dispute settlement mechanism; contribution to the objective of sustainable development and cooperation for technical assistance and the strengthening of the trade capacities of the Parties. In this same Chapter, it is stated that each Party is responsible for the observance of all provisions of this Agreement and shall take any necessary measure to implement the obligations under it. Also, it mentions that if a Party has failed to fulfil its obligations under the Agreement, it shall use and obey the dispute settlement mechanism of the Agreement.

In Title II of Institutional Provisions, a Trade Committee is created and constituted by the signatory parties with the functions of supervisor, facilitators and evaluator of the Agreement implementations, results and decisions (consensus) concerning the Agreements and the other specialized bodies.

Title III of Trade in Goods, Chapter 1 Market Access for Goods it is stated that "Parties shall progressively liberalize trade in goods over a transitional period

starting from the entry into force of this Agreement". In Section 2 the Agreement mentions the elimination of customs duties on goods in accordance with Annex I of Tariff Elimination Schedules. For Section 3 it argues about not tariff measures as import/export restrictions, fees and charges, duties and taxes on exports, imports/exports licensing procedures, which parties shall not adopt or reduce according to the Tariff Elimination Schedules. In Section 4, about agricultural goods, it is stated that Parties can apply agricultural safeguard measure, quantity-based safeguard measure (if a good exceeds the trigger level) according to the Agricultural Safeguard Measures and Tariff Elimination Schedules Annexes of the agreement. This section also talks about the progressive elimination of export subsidies or other measures with equivalent effect on agricultural goods, and the administration and implementation of tariff rate quotas according to the Tariff Elimination Schedules.

Chapter 2 Trade Remedies of the same Title, talks about anti-dumping and counter-vailing measures which are meant to reaffirm the rights and obligations under the Anti-Dumping Agreement, the Subsidies Agreement and WTO Agreement on Rules of Origin. The multilateral safeguard measures retain rights and obligations of the Safeguards Agreement, and the Rules of Origin Agreement and bilateral safeguard measures are only applicable during the transitional period under circumstances considered in the Agreement. Chapter 3 on Customs and Trade Facilitation it discusses about the establishment of efficient, transparent and simplified procedures, cooperation, technical assistance, etc. In Chapter 4 and 5, of Technical Barriers to Trade and SPS consider the implementation of WTO TBT and SPS Agreement and cooperation between the Parties. Chapter 6 is about movements of goods and stablishes the benefit from free movement of goods within the territory of the EU to the

products originating in a signatory Andean Country. Finally, Chapter 7 contains the exceptions of trade in goods.

Title IV about Trade in Services, Establishment and Electronic Commerce creates the necessary provisions for the progressive liberalization of establishment and trade in services and for cooperation on electronic commerce according to the List of Commitments on Establishment of the Agreement and Commitments on Cross-Border Supply of Services, with the exception of mining, processing nuclear weapons, processing arms, national maritime cabotage, audio-visual, air transport & related services and processing and disposal of toxic waste. This section guarantees the treatment no less favorable to the Parties than that it accords to its own like services, service suppliers, establishment and investor. Also, it is stablished the temporary presence of natural persons for business purposes and regulations for each service sector such as computer, postal and courier, telecommunications, financial, international maritime transport, electronic commerce and its exceptions.

Title V is about the Current Payments and Movement of Capital and stablishes that for Current Account "Parties shall authorize, in freely convertible currency and in accordance with the provisions of Article VIII of the Articles of Agreement of the IMF, any payments and transfers on the current account of balance of payments between the Parties.". Moreover, for Capital Account the Agreement states that "Parties shall ensure the free movement of capital relating to direct investments made in juridical persons constituted in accordance with the laws of the host country and investments and other transactions made in accordance with the provisions of Title IV."

Title VI of Government Procurement states that goods and service procurement treatment is no less favourable than the treatment accorded to the Parties own goods, services and suppliers. It contains the terms, conditions and procedures for government procurement for the Parties and recognize the importance of the participation of Micro and SMEs in government procurement and cooperation between the signatory Parties.

Title VII of Intellectual property states about the Agreement objectives to facilitate the production and commercialization of innovative and creative products between the Parties and achieve an adequate and effective level of protection and enforcement of intellectual property rights by the reaffirmation of the rights and obligations under the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement) and Convention on Biological Diversity (CBD). It includes a chapter on Protection of Biodiversity and Traditional Knowledge, a chapter on Provisions Concerning Intellectual Property Rights, a chapter on the Enforcement of Intellectual Property Rights and other of Technology Transfer and Cooperation.

Competition as Title VIII states that "Parties shall apply their respective competition policies and laws" cooperate between the Parties and in case of a conflict address the Dispute Settlement mechanism of the Agreement.

Title IX of Trade and Sustainable Development the Agreement urges the Parties to "reaffirm their commitment to sustainable development, for the welfare of present and future generations", considering trade-related labour under the Conventions of the International Labour Organization ILO and environment protection according to the multilateral existing Protocols and Conventions, as basic issues for trade between the parties and cooperation.

Title X on Transparency and Administrative Proceedings it is stated that "Parties shall cooperate in relevant bilateral and multilateral fora with a view to increasing transparency in trade-related matters." This includes measures as rules, laws, regulations, judicial decisions, procedures and administrative rulings relating to any matter covered by the Agreement to be promptly published or made readily available to the Parties interested.

Title XI of General Exceptions contains exceptions on security, taxation only on the provisions of the Agreement and balance of payments restrictive measures in case of difficulties of the Parties.

Title XII about Dispute Settlement is meant to create the mechanisms "to prevent and settle any dispute between the Parties concerning the interpretation and application of this Agreement and to reach, whenever possible, a mutually satisfactory resolution on any issue that could affect its operation.". It defines the Consultations process and the Dispute Settlement Procedures available to the Agreement Parties.

Title XIII of Technical Assistance and Trade-Capacity Building states that Parties agree to enhance cooperation between that contributes to the implementation of the Agreement and benefit them.

Finally, Title XIV about Final Provision stablish considerations as annexes, appendices, declarations and footnotes as integral part of the Agreement; accession of new member states to the European Union; accession to this Agreement by other member countries of the Andean Community; entry into force, duration and withdrawal of the Agreement.

In the case of Ecuador, the Protocol of Accession, amend the Multiparty Agreement, as well as the annexes for access to markets, services and public

procurement. The late negotiations for Ecuador produced certain particularities in comparison to the negotiation terms for Colombian and Peru. Therefore, general particularities with this type of trade agreement and specific particularities of the Protocol of Accession for Ecuador will be reviewed in the next section.

a. Particularities

Multiparty Trade Agreement EU- Colombia and Peru

The European Union has negotiated several trade agreements in the region and those differ considerably in terms of coverage and methodology[12]. Once reviewed the text of the Multiparty Agreement it is important to mention that this Agreement represent a "new generation" agreement since it consider broader aspect and fields than just trade. For example, at beginning of the text it contains essential elements related to the protection of human rights and the rule of law as well as commitments with disarmament and non-proliferation of weapons of mass destruction which reinforce the objectives of international organizations such as United Nations and promote values such as democracy and human rights. In case these essential clauses were not fulfilled, respected or maintained the agreement would be suspended.

The Multiparty Agreement also consider the asymmetric economies of the Parties. The EU has been flexible in adapting to the trade partners' different requests, providing differentiated schedules according to the development needs (European Parliament- Policy Department, 2016). This is the case of the Tariff Elimination Schedules of the Agreement which considers national capacities

[12] Chile, Mexico and Central America Agreements with UE vary from the Multiparty Trade Agreement due to the time at which they were concluded and the context of the negotiations (EPRS, 2016).

and sensitive sectors so different phasing-in periods are given, longer for Colombia and Peru than those for the EU, “enabling sectors in these states that may be disadvantaged by competition with EU products a longer period to adapt” (*Ibid*). In this aspect, at the time of entry into force of the Agreement Colombia eliminates tariffs on 65% of the imports from the EU, while the rest of the products will be liberalized in a period of 5 and 10 years. Peru as well immediately liberalized 80% of industrial goods from the EU and will liberalize the rest in a period of 5 and 10 years as well (INTAL, 2012) For EU, almost 85% of agricultural goods and 99% of industrial goods will be liberalized since the entry in force of the Agreement. The transition periods for tariff liberalization of the Agreement is up to 11 years. Eventually, by the end of the implementation period in 2023, the “EU will fully liberalize 95.8 percent and 97 percent of its tariff lines for Colombia and Peru, respectively”. On the other hand, by the end of its implementation period in 2028, “Colombia will fully liberalize 96.1 percent of tariff lines, and by the end of its implementation period in 2028, Peru will fully liberalize 98 percent of tariff lines” (European Parliament- Policy Department, 2016).

Moreover, with the Agreement the Parties adhere to national treatment and non-discrimination principles as per WTO commitments for goods and services trade and public procurement. In the case of trade of goods, the Agreement provides a scope for the use of safeguard measures and anti-dumping measures. These measures are only permitted when an increase in imports threatens serious injury to an existing industry and measures are restricted to a maximum of four years. The Agreement also regulate trade of services but exclude sensitive sector for Colombia and Peru.

When it comes to government procurement, EU has included state companies and other agencies giving the greatest coverage offered by this bloc regarding trade Agreements. For intellectual property rights the Agreement urges the Parties to comply TRIPS Agreement and other international conventions, becoming a great challenge for Peru and Colombia. The agreement also includes the title on Protection of Biodiversity and Traditional Knowledge a conflictual sector for the Andean countries. Moreover, it is important to mention that the Agreement also encourages and facilitates investment, but it is not described nor regulated in the Agreement.

Moreover, considering the different levels of development the Agreement includes cooperation in most of the titles (cooperation in customs procedures, in statistics, in promotion of SMEs, standards, technical conformity, intellectual property rights, technology transfer, etc.) and the technical assistance sections to strengthen trade relations and improve the capabilities of the Parties.

The Multiparty Agreement was negotiated based on WTO rules and in line with the agreements created under this organization promoting multilateralism the fulfillment of international conventions. Therefore, the Agreement looks forward to strengthening the WTO role and tries to promote the application of principles set out in the WTO. In this matter, EU engages partners to increase their capacity to comply international requirements and conventions by technical assistance. It is important to consider that EU has pursued to promote issues such as national treatment, intellectual property rights, government procurements, TBT and SPS requirements, etc. through trade agreements making them legally binding even if developing countries have been still negotiating them in WTO rounds, so “extending the coverage of goods and

service sectors beyond commitments at GATS, although they excluded sensitive sectors" (European Parliament- Policy Department, 2016).

Additionally, the Agreement is consistent with the international values and objectives of sustainable development, thus it includes in the title on trade sustainability issues related to the commitments on labour conditions and rights, and environmental protection. This inclusion aims states maintain their own labour and environmental legislation, and ratify and comply with international standards regarding labor and environment expressed in core conventions and international treaties. It is pursued to prevent trade liberalization to have negative impacts to the society and environment. However, these measures are promotional rather than legally-binding. This section of the Agreement also establishes a mechanism for civil society participations (European Parliament-Policy Department, 2016).

Besides, the Trade Agreement created a series of joint bodies, "charged with monitoring the implementation of the agreement and further developing cooperation and trade Institutional arrangements created by the agreements" for example Trade Committee, which is made of representatives from each partner to oversee its application, Specialized Subcommittees and Coordinators.

Regarding dispute settlement, as presented above, it has a dispute resolution mechanism. This mechanism has a similar process of the WTO, "the parties will first resort to consultations, they can then request arbitration in the dispute, and can finally demand the creation of a panel of experts to decide and adjudicate on the matter (either within the trade agreement or in the WTO)" (EPRS, 2016).

Regional integration has been also pursued in the Agreement by the incorporation of diagonal cumulation mechanisms in the rules of origin, since it “allows some products that derive from regional production chains to qualify under the rules of origin as originating in the partner country”, therefore qualifying for the Agreement preferences (EPRS, 2016). Besides, a clause of future adhesions leaves an open the door to the participation of other member countries of the Andean Community, since promoting regional integration has been an important motivation for the EU in these agreements.

According to this clause, Article 329 of the Multiparty Agreement lays down the provisions regarding the accession of other Member Countries of the Andean Community to the Agreement. Ecuador and the EU negotiated a Protocol of Accession under this clause, so this country could be the third Andean country to join the Agreement.

Multiparty Trade Agreement EU- Colombia, Peru and Ecuador

The Protocol of Accession of Ecuador to the Multiparty Agreement amended the Agreement document itself, as well as the annexes for access to markets, services and public procurement. The late negotiations for Ecuador produced certain particularities in comparison to the negotiation terms for Colombian and Peru. As a matter of fact, the Ecuadorian former Ministry of Foreign Trade argued that the country was going to be part of the Agreement that the EU has already signed with Bogota and Lima, but he said that "it does not mean that we are merely adhering.", "We are joining an agreement that has a common trunk, common elements, but that has particularities for each case," (El Comercio, 2013). In this aspect, it is important to identify the differences with our neighbors Colombia and Peru regarding the Agreement with the EU.

Ecuador negotiated some clarifications and precisions of the document concerning market access, time schedules for the liberalization of goods and services, issues on the current payments and movement of capital chapter, levels and exclusions for government procurement and the commitments on intellectual property. However, essential principles and most of the general body of the agreement were not modified.

First, Ecuador included a clause when it is recognized the asymmetries with the EU and the Andean Community states, but also within the region, since Ecuador is the smallest economy among the member Parties. Under this consideration, during negotiations of goods trade, Ecuador excluded from the Agreement scope agricultural goods such as: meat and processed beef, meat and processed poultry, corn and derivatives, rice and derivatives, soybeans, frozen potatoes, sugar, butter, fresh cheese, milk powder, yogurt, sweet corn, cooked pork sausages and animal feed. Such exclusions account for about "60% of the gross value of agricultural production in the country" (Ministry of Foreign Trade, 2016). Additionally, banana was negotiated, the current tariff for fruit in the EU will be reduced from 132 to EUR 75 per ton by 2020, having the same preferential conditions as other competing countries in the European market. Besides, the EU will eliminate its export subsidies for those products subject to tariff elimination (*Ibid*).

For industrial goods, the Agreement allows the access with 0% of tariff for the entire supply of Ecuador of manufactured goods, fisheries and aquaculture goods, and other. For products from the European Union, Ecuador will eliminate tariffs with the following scheme. Since the entry into force of the Agreement 76% of tariffs on imports will be eliminated, 11% more in 5 years

and for the remaining amount between 7 and 10 years. Tariffs on cars and CKDs from the EU will be eliminated in 7 years from of the entry into force of the Agreement (Ministry of Foreign Trade, 2016).

For service trade Ecuador negotiated professional services, telecommunications, financial services, environmental services, health services, education services, etc. The services excluded from the negotiation are those related to the exercise of governmental faculties: policies of the Central Bank, social security, public services (Ministry of Foreign Trade, 2016).

Regarding, government procurement Ecuador negotiated some exclusions since Ecuador has placed emphasis on preserving public procurement policy as a tool to promote development and economic inclusion. For example, all government procurement programs and projects in favor of SMEs and Actors of the Popular and Solidarity Economy (AEPYS) have been excluded from the coverage of the Agreement, national programs such as: yarn development program, food assistance program (School Breakfasts), the construction of schools (Millennium Schools program), among many other programs carried out by the State Ministries which encourage the participations of small and medium producers (Ministry of Foreign Trade, 2016).

Regarding intellectual property, Ecuador made use of the exceptions and flexibilities established or derived from the Agreement on intellectual property to protect public health, access to medicines, nutrition of the population and to prevent abuse of these rights. Likewise, the Agreement with the EU determines that the test data must be protected for a period of 5 years for the medicines and 10 for the agrochemicals. Nevertheless, Ecuador will have a moratorium of five

years to apply this obligation counted from the entry into force of the Agreement (Ministry of Foreign Trade, 2016).

Most of the particularities presented above respond to the level of development of the country and the need to protect sensitive sectors for the Ecuadorian economy and society wellbeing. Nonetheless, it is important to mention that in general terms the Multiparty Trade Agreement for Ecuador, Colombia and Peru is very similar regarding rights and obligations. Therefore, implications from these specific particularities are not widely expected. After having reviewed the general particularities of the Multiparty Agreement and specific particularities for Ecuador, it is important to address the main results and effects of the Agreement implementation for Colombia and Peru. Later, it will be presented the results for Ecuador in the first semester of 2017, since the Agreement was implemented.

v. Analysis of the Agreement Implementation

a. Results and effects for Colombia and Peru

In general terms, a Trade Agreement consists of the gradual elimination of tariff and non-tariff barriers between partner countries and consider other elements. This has a direct effect on the balance of trade of the Parties, exports and imports trends and composition. To better understand the possible impacts for Ecuador, the review of the three-year implementation of the Multiparty Agreement for Colombia and Peru is relevant.

It is expected that the Multiparty Agreement EU-Colombia and Peru will produce several benefits for the parties opening markets for goods, services, government procurement and investment. As the European Commission states,

“it is accounted to save on import duties alone worth some around half a billion Euros €500 million at the end of transition periods” (European Commission, 2017), reduce costs that will have a direct beneficial impact on growth, employment and general well-being for the Parties. Also, it is expected to offer better conditions and mores stable environment for trade between the Parties provided the rules on goods and service trade, non-tariff barriers, competition, transparency and intellectual property rights, bilateral dispute settlement mechanism, cooperation on competitiveness, innovation, production modernization, trade facilitation and technology transfer as well as promotion and preservation of high labour and environmental protection, including a transparent arbitration system and procedures to engage with civil society (European Commission, 2017).

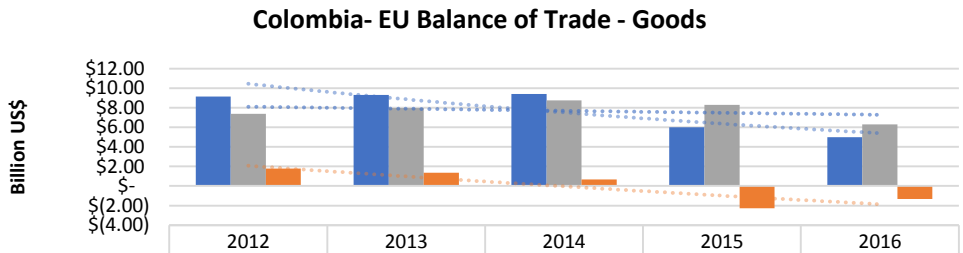
Additionally, studies on the impact of the Agreement argued that it could increase the GDP of Colombia by 1.3% and Peruvian GDP by 0.7% in the long term. Moreover, about the effect on imports and exports it was expected and increase by 6% in the medium term and by 8% over the long run. Studies also referred to the direct positive effects for local producers of agricultural goods sectors, manufacturers of light industrial goods and heavy industrial goods sectors (European Commission, 2012).

Considering these expectations, following it will be presented the results of the Agreement implementation for Colombia’s and Peru’s economies since 2013. It is important to acknowledge that the full impact could only be measured once the Agreement is fully implemented. However, to recommend public policy, it is relevant to review the effects of the Agreement over the period it has been applied. Based on this information, a strategy for Ecuador could be proposed for its own implementation.

Colombia

Balance of Trade

In 2016, the third year of the Agreement application, goods trade between the EU and Colombia stood at $4,97 billion on exports and $6,30 billion on imports.



	2012	2013	2014	2015	2016
Exports (FOB)	$9.13	$9.29	$9.41	$6.01	$4.97
Imports (CIF)	$7.36	$7.95	$8.76	$8.28	$6.30
Balance	$1.77	$1.34	$0.65	$(2.27)	$(1.33)

Source: DANE-DIAN Colombia, 2017

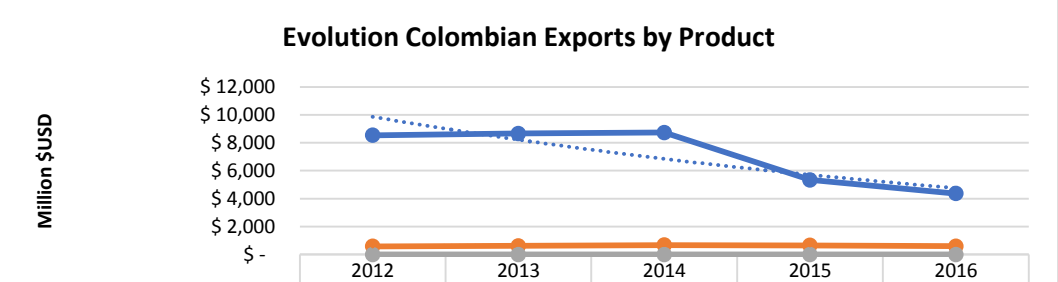
Figure 20. Colombia-EU Balance of Trade in Goods

As Figure 20. shows, the evolution of the Colombian balance of trade with the EU has been negative. Since the year of implementations of the Trade Agreement, Colombia's trade on goods have been decreasing. The Association of Foreign Trade of Colombia (ANALDEX) argues that the exports have been affected by the fall in prices of the mining-energy sector (Analdex, 2017). Therefore, the country has maintained a deficit in the balance of trade since 2015. Form 2012 (year of reference) to 2016 goods exports have decreased almost 45,5%. Regarding imports, these have decreased 14,4% in the same period. The general panorama has evolved quite negative for Colombian exports, but still the EU is the second trade partner for Colombia after the US and for the EU, Colombia is the first partner of the Andean Community (EU Delegations to Colombia, 2016). Even if the mining-energy sector impacted

greatly in the decrease of total exports, it is important to mention that according to the Colombian Ministry of Foreign Trade, the sectors that increased exports to the EU the most, since the agreement was in force, are the agroindustry and agriculture sector (Dinero, July 2017).

Exports

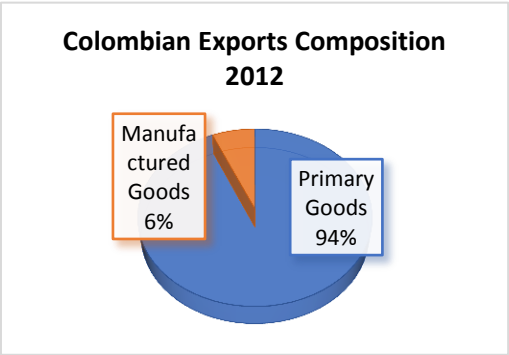
Colombia's main exports are still led by commodities which accounts for 87,9% of total goods exports in 2016. From this amount, 67,9% are traditional products. Coal accounts for 35,5% of total exports, crude oil 12,9% and its derivates 3,5% and coffee 15,1%. Other main primary products are bananas 14,5%, flowers 2,4%, ferronickel 0,4%, emeralds 0,07%, shrimp 0,43 and others 2,8% (DANE-DIAN Colombia, 2017). Regarding manufactured goods, these account for 12% of total export. It includes agro-industrial goods 7,7%, light industry 2,7%, basic industry 1,05%, machinery and equipment 0,55%, and 0,04% of automotive industry goods (DANE-DIAN Colombia, 2017).

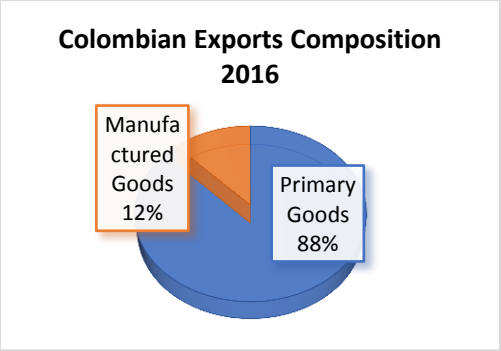


	2012	2013	2014	2015	2016
Primary Goods	$ 8,536	$ 8,663	$ 8,733	$ 5,346	$ 4,369
Manufactured Goods	$ 590	$ 625	$ 677	$ 660	$ 600
Other Goods	$ 3.5	$ 1.8	$ 1.9	$ 2.5	$ 2.3

Source: DANE-DIAN Colombia, 2017

Figure 21.Evolution Colombian Exports by Product





Source: DANE-DIAN Colombia, 2017

Figure 22. Colombian Exports Composition 2012-2016

As shown in Figure 21 and 22, Colombian exports of primary goods have had a sharp decline in the period of the Agreement implementation, mostly because of the price drop of this type of goods which represent an important income for Colombian economy. In 2012 primary good accounted for almost 94% of total goods export, but for 2016 these have decrease to 88%. Manufactured goods on the other hand, have gained a bigger share of total exports (12% in 2016) over the years. However, this does not imply a significant increase of the values and amounts of Colombian manufactured goods exports. The variation evolution of goods exports is shown in detail in Table 1.

Colombian Exports Variation 2012-2016

Year	2012	2013	2014	2015	2016	Period Variation
Total	**2,02%**	**1,76%**	**1,32%**	**-36,17%**	**-17,26%**	-45,54%
Primary Goods	**4,54%**	**1,49%**	**0,81%**	**-38,79%**	**-18,26%**	-48,81%
Traditional	**5,74%**	**1,92%**	**-0,35%**	**-43,47%**	**-24,62%**	-56,72%
Coffee	-23,32%	-6,22%	45,47%	-5,85%	-3,92%	23,41%
Coal	-11,90%	-9,67%	-5,98%	-35,99%	-16,81%	-54,78%
Oil derivates	1,96%	33,25%	-33,79%	47,77%	-36,13%	-16,73%

Ferronickel	1,93%	-52,13%	-27,82%	-49,61%	-61,30%	-93,26%
Oil	70,85%	24,51%	1,89%	-64,51%	-47,16%	-76,21%
Others	**-5,97%**	**-4,12%**	**11,01%**	**3,52%**	**11,51%**	22,88%
Banana	-5,73%	-5,86%	11,46%	4,37%	14,74%	25,66%
Emeralds	-41,31%	13,90%	-8,30%	40,45%	-35,40%	-5,23%
Flowers	-5,27%	4,24%	9,65%	-1,62%	-2,58%	9,55%
Other Agricultural goods	**1,63%**	**7,74%**	**17,38%**	**-3,42%**	**35,94%**	66,04%
Shrimp	580,39%	-13,90%	13,18%	-12,50%	40,58%	19,87%
Others mining goods	**-73,26%**	**-6,32%**	**392,83%**	**139,87%**	**1,95%**	1028,94%
Manufactured Goods	**-24,58%**	**6,03%**	**8,34%**	**-2,58%**	**-9,12%**	1,70%
Agro-industrial Goods	**-19,64%**	**14,09%**	**14,56%**	**15,72%**	**-0,77%**	50,08%
Others Agro-industrial	0,09%	48,87%	-2,68%	-18,25%	-12,42%	3,72%
Sugar	-0,47%	25,37%	120,70%	-8,16%	9,61%	178,53%
Processed coffee	-23,89%	-5,79%	-15,42%	23,05%	4,23%	2,20%
Light Industry	**-14,97%**	**0,30%**	**27,09%**	**-15,86%**	**-13,23%**	-6,93%
Footwear industry	-65,74%	-31,70%	5,59%	-28,42%	103,23%	4,91%
Clothing	-8,43%	-2,07%	-1,63%	-17,97%	-13,80%	-31,88%
Leather manufactures	11,96%	-8,39%	14,40%	-31,50%	12,30%	-19,37%
Others light industry	-13,96%	3,53%	56,17%	-22,05%	-23,39%	-3,44%
Publishing products	-56,81%	134,47%	-50,19%	138,99%	-48,80%	42,90%
Plastic products	-22,32%	-0,72%	34,06%	-4,40%	19,57%	52,13%
Soap cosmetics and others	-17,12%	-4,06%	10,06%	27,27%	-45,65%	-26,95%
Textiles	-30,86%	2,28%	-46,77%	-33,57%	11,27%	-59,76%
Basic Industry	**-37,50%**	**-9,11%**	**-28,96%**	**-18,22%**	**-33,93%**	-65,11%
Metallurgical goods	-26,87%	44,56%	-35,29%	-45,57%	-21,81%	-60,19%
Paper	65,59%	-14,80%	-6,42%	-18,56%	-7,11%	-39,69%
Basic chemical goods	-47,22%	-52,11%	-17,68%	34,58%	-46,87%	-71,81%
Machinery and Equipment	**-26,67%**	**28,99%**	**18,46%**	**-34,52%**	**-28,52%**	-28,48%
Automotive Industry	**-18,41%**	**189,51%**	**26,36%**	**-77,28%**	**139,62%**	99,14%
Other Goods	**221,56%**	**-49,35%**	**9,19%**	**27,91%**	**-8,46%**	-35,25%

Source: DANE-DIAN Colombia, 2017

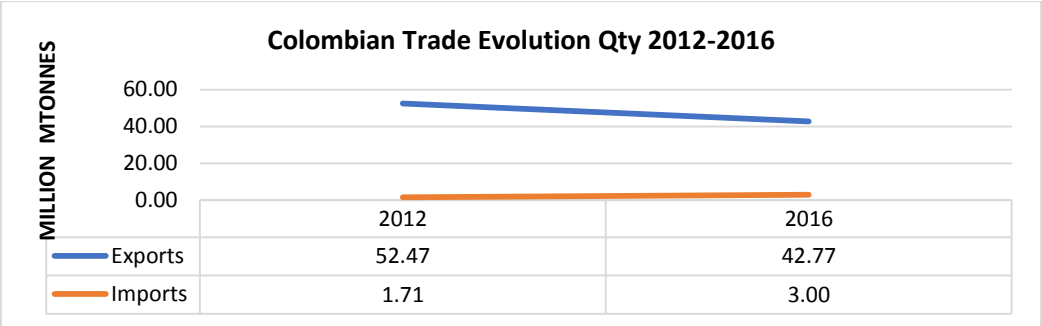
Table 1. Colombian Exports Variation 2012-2016

This table presents a detailed behavior of Colombian export. As mentioned above, regarding primary goods and more specifically, mining-related goods,

these have had an important decrease. From 2012 to 2016 ferronickel exports value dropped 93%, while oil shows a decrease of 76%, coal also decreased 54% during this period. International prices fluctuation in 2014 had a lot to do with these results, which directly impacted Colombian exports and balance of trade. However, primary goods such as coffee, banana, flowers, and other type of agricultural goods (avocado, cacao, pineapple, oranges etc.) have had a positive evolution since for most agricultural goods, tariffs were eliminated since the entry into force of the Trade Agreement. Bananas and shrimp have had the best performance in this period with an increase of 25% and 19% respectively[13]. Also, other mining goods have had an important growth (copper, gold, and others).

According to table 1. manufactured goods show a negative growth in general terms. However, agro-industrial goods (sugar 178%, coffee preparations 2,2%, palm and almond oil, dehydrated fruit, confectionery, cacao preparations, rum etc.) present a significant increase in exports in almost 50% since 2012. Some goods of light industry and automotive industry have also increase its exports significantly, yet the share of these exports in the total are less than 3%. Moreover, according to the Minister of Foreign Trade of Colombia, the country went from registering 493 exporting companies to the EU in 2013 to register 606 with that activity in May 2017 (Dinero, 2017).

[13] This is an issue for Ecuador since these goods are one of the main primary exports for the country.



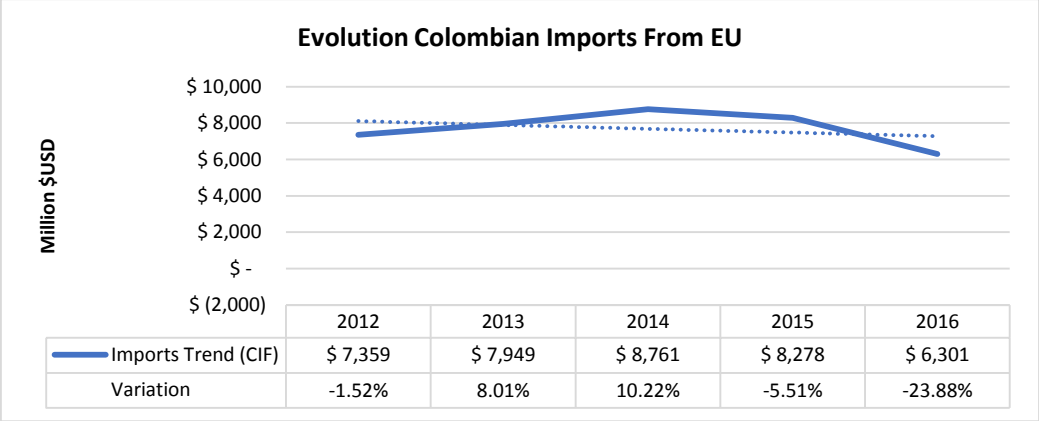
Source: Eurostat, 2017

Figure 23. Colombia Trade Evolution in QTY

Nonetheless, regarding exports and imports quantities, in the period 2012-2016 Colombia has reduced its goods exports to the EU in almost 18%, while EU has increased its export to Colombia in 75%. By 2015, the main importers of Colombian goods to the EU were Spain, Netherlands, United Kingdom, Italy, Germany, Belgium, Portugal and France.

Imports

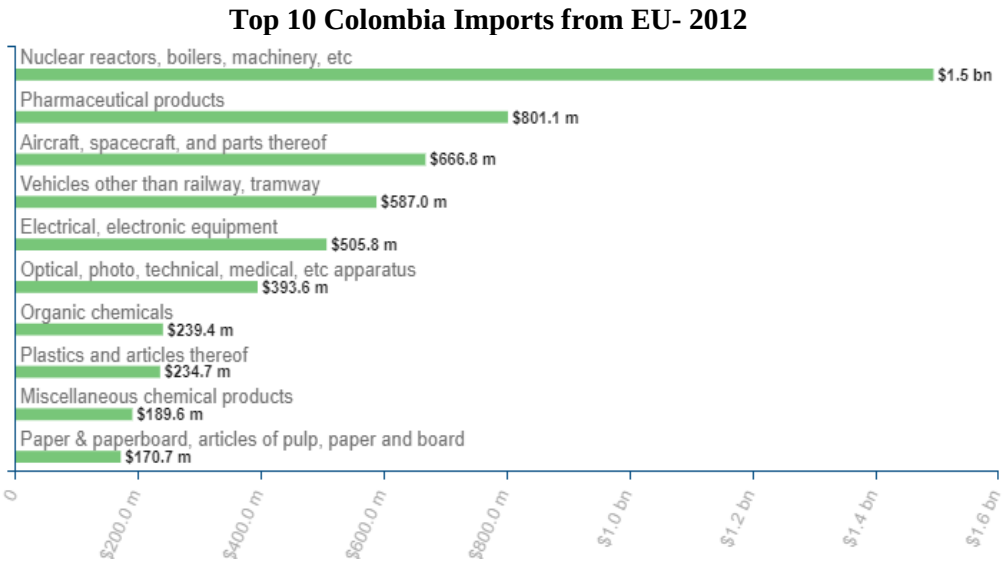
Since the Agreement implementation, goods imports form the UE have had some important variations. In 2013 and 2014 imports grew, but in 2015 and 2016 imports decreased because of a decline in pharmaceutical products and aircraft imports as argued by the Colombian government (DANE, 2016). In general terms, from 2012 Colombia has had a negative growth of imports (-14,38% 2016) considering values, but considering quantities there has been an increase of 75% in this period according to Figure 23.



Source: DANE-DIAN Colombia, 2017

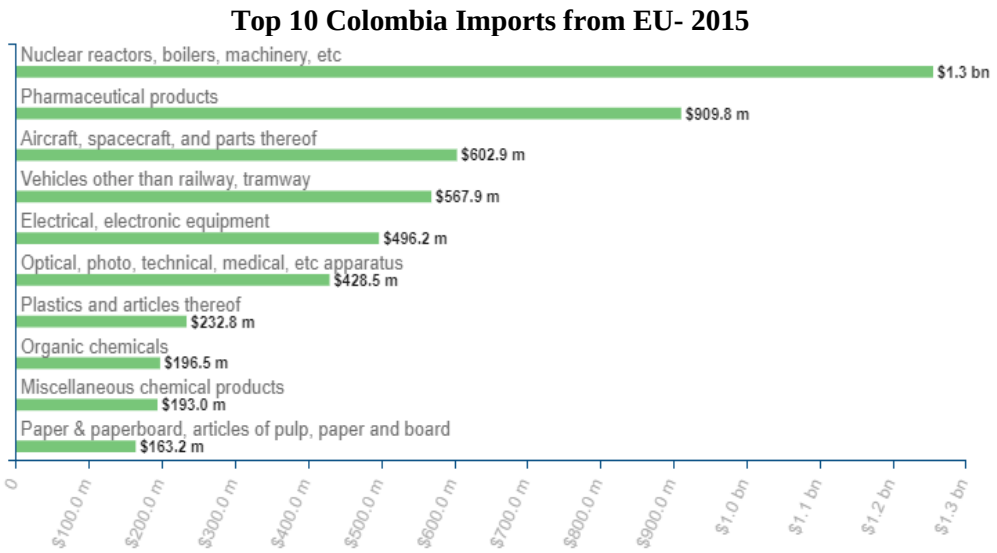
Figure 24. Evolution of Colombian Imports from EU

The main imports from the EU in 2015 consisted of machinery and mechanical devices (17.36%), pharmaceuticals (12.59%), aircraft and parts (8.34%), vehicles and parts (7.86%) and other machines (6.87%). In figure 25- 26, it can be observed the variation in imports from 2012 to 2015.



Source: UN COMTRADE, 2017

Figure 25. Top 10 Colombia Imports from EU- 2012

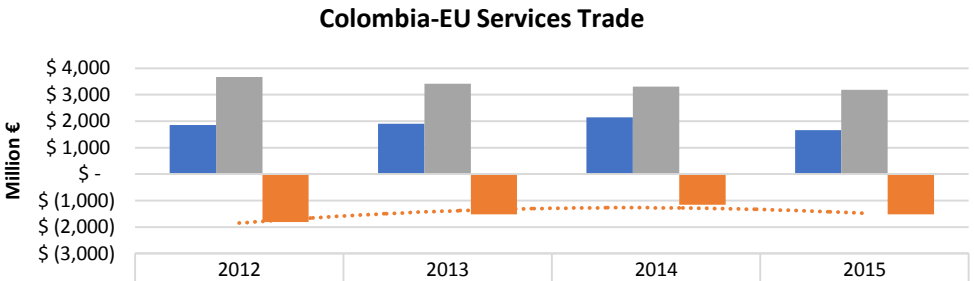


Source: UN COMTRADE, 2017

Figure 26. Top 10 Colombia Imports from EU- 2015

In 2015 there is a general decrease in imports compared to 2012, but it is more significant for pharmaceutical products, aircrafts and machinery. The main suppliers within the EU for Colombia were Germany, Spain, France, Italy, the Netherlands, the United Kingdom, Belgium, Denmark, Austria and Romania.

Trade of Services



	2012	2013	2014	2015
Exports	$ 1,859	$ 1,904	$ 2,144	$ 1,663
Imports	$ 3,673	$ 3,419	$ 3,300	$ 3,184
Balance	$ (1,814)	$ (1,515)	$ (1,156)	$ (1,522)

Source: Eurostat, 2017

Figure 27. Colombia-Eu Service Trade

According to the data available on services trade, it can also be observed that the balance of trade has a deficit before and after the Agreement was implemented. From 2012 to 2015 exports of services have increased 3,5%, while imports only 0,3%. Consequently, it can be argued that this sector has not been widely exploited after the Agreement.

Intellectual property - Geographical Indications

The EU Delegation for Colombia stated that when negotiated the Agreement, EU had 117 Geographical Indications for agricultural and food products, wines, spirits and one from Colombia. However, by 2016 nine additional Colombian Geographical Indications were protected the Agreement: Nariño Coffee, Cauca Coffee, Huila Coffee, Huila Achira Biscuit, Paipa Cheese, Caquetá Cheese, Colombian Carnation, Colombian Rose and of Colombian Chrysanthemum (EU Delegation to Colombia, 2016).

Government Procurement

Regarding public procurement, EU and Colombia have discussed in the Sub-Committees about market access at the subcentral level and the "application by contracting entities of unusual and sometimes very high indicators to determine the economic capacity of bidding companies" (European Commission, 2016)

Technical Barriers to Trade

In this topic, the Parties have raised a specific concern in the Sub-Committees about Colombia's requirement for a third-party certification in this country and the future implementation of the National Quality System. Additionally, the EU expressed concern about the National Development Plan, "where price appears

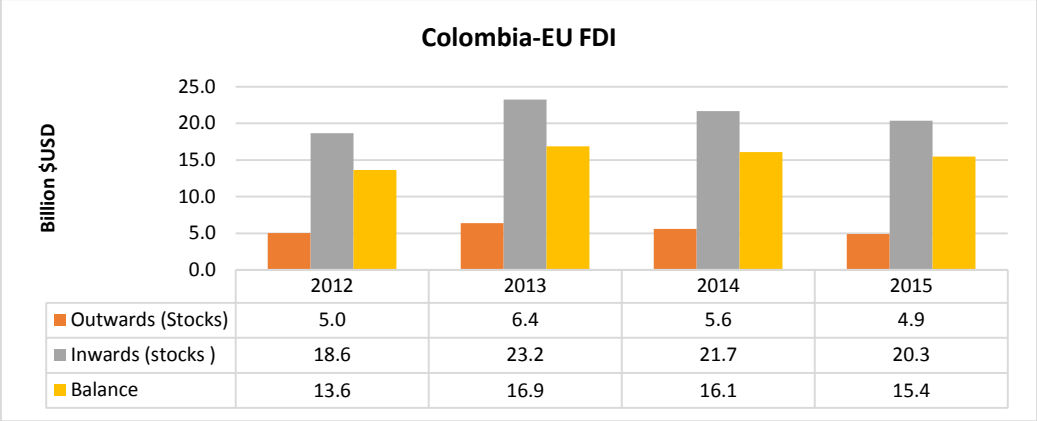
to be one of the requirements for issuing or renewing marketing authorizations for medicines and medical devices" (European Commission, 2016)

Sanitary and Phytosanitary (SPS) Measures

The EU does not require prior admissibility to plant origin product, allowing Colombia to export a large variety of fruits and vegetables to the EU. Nonetheless, for animal origin products, only countries included in a list of authorized countries can export this type of products. Nowadays, Colombia has sanitary admissibility to export fish and gelatin as well as treated stomachs, bladders and intestines. On the other hand, for Colombian market prior admissibility is required for animal and plant origin products. Thus, according to the Agreement, since 2015 Colombia has applied a simplified procedure for EU imports and the recognition of the equivalence of the sanitary system of inspection, monitoring and control of the EU countries. Also, the EU has provided technical assistance to Colombia in this field by the program, Better Training for Safer Food (BTSF) (EU Delegation to Colombia, 2016).

FDI

Regarding FDI, EU investment flows to Colombia have evolved in positive terms. From 2012 to 2015 FDI increased 9%. These inflows are concentrated in the financial sector, communications, mining and construction (EU Delegation to Colombia, 2016).



	2012	2013	2014	2015
Outwards (Stocks)	5.0	6.4	5.6	4.9
Inwards (stocks)	18.6	23.2	21.7	20.3
Balance	13.6	16.9	16.1	15.4

Source: European Commission, 2016

Figure 28. Colombia-EU FDI

National Legislation

Colombia had to modify its national legislation on customs, customs procedure, and others to properly apply the Agreement. This process will be progressive as the nature of the Agreement itself. Additionally, it is important to mention that since 2015 the EU eliminated the visa requirement for Colombia and Peru, allowing its citizens to enter without visa and up to 90 days to the countries of the Schengen Area.

Moreover, one conflictual point for the EU was the discriminatory taxes on alcoholic beverage Colombia had for some EU products. Therefore, a new law was passed by Colombian Congress to meet the commitment with the European Union and the WTO to balance the level of taxes to the drinks that are imported to the country. According to the new legislation, "there will be an equitable payment of 220 pesos per degree of alcohol for domestic and foreign liquors plus 25 percent of ad valorem tax and 5 percent of general VAT on consumer price." (El Espectador, 2016)

Trade and Sustainable Development

To properly implement the provisions of trade and sustainable development of the Agreement, Colombia and the EU have met on three occasions (Lima, 2014, Bogota, June 2015 and Brussels, December 2016) through the Subcommittee on Trade and Sustainable Development, which is the specialized body of the agreement on this matter and have opened channels of communications with the civil society (European Parliament-Policy Department, 2016).

Additionally, to promote a positive impact of the Trade Agreement on human rights and labour rights in "Colombia and Peru, the European Parliament passed Resolution 2628, also known as Roadmap of the EU-Colombia/Peru FTA on 13 June 2012" and both countries have passed "plans of action regarding institutional and legislative measures they would undertake to ensure the protection of human and labour rights" (European Parliament-Policy Department, 2016).

In this field Colombia has the challenge to better apply national legislation on labor. Even if agricultural exports have increased (flowers, bananas, etc.), labour conditions are still in the improvement process, which is of concern of the EU. Freedom of association and the right to collective bargaining, the prohibition of child labor and forced labor and the right to non-discrimination were some of the issues addressed in the Agreement. In this matter, the EU asked for the enforcement of social dialogue and labor inspection, which is still in process in Colombia and Peru (Forero, L., 2016).

Colombia refers to its National Development Plan, in which national policy for decent work and measures to improve the collection of fines and address inadequate outsourcing and collective bargaining of some companies are

addressed. Also, in the Second Annual Report of the Agreement implementation published by the European Commission it is argued that Colombia has “advanced in social dialogue through mechanisms such as the Special Committee on Conflict Resolution before the ILO (CETCOIT) and a successful collective bargaining exercise in the public sector has been successfully carried out.” (European Commission, 2016). Moreover, it is stated that “more resources had been devoted to improving the protection of trade union leaders suffering from violent threats and reiterated Colombian government commitment to fight impunity" (*Ibid*).

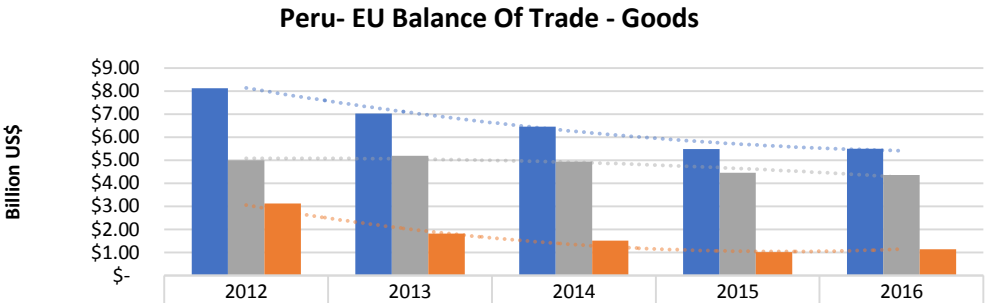
In 2016, peasant and rural organizations convoked to a national “Minga”, demanding, among other policies, the revision of the free trade agreements (United States, EU, others) that have had a negative impact in recent years as they have argued, since some agricultural sector have been affected. Additionally, nowadays in Colombia environmental organizations are also claiming on the impacts of new mining activities. For Colombia, the mining sector is included as a priority in the National Development Plan, as it is an important source of export revenue, but environmental organization argue about the weak institutionality to protect the environment over developmental priorities, since this sector produces high environmental externalities and harsh working conditions. Since the Agreement provisions in this field are promotional and not legal binding, issues on labor and environment might still have negative impacts. Only political will in Colombia and Peru will push the fulfillment of international conventions and protocols. In this field, EU has urged Colombia and Peru to increase civil society participation by evaluating and reformulating the mechanisms of participations of the Domestic Assessment Groups in these countries to have higher levels of participation.

Overall, changes in national legislation regarding labor, environment and civil society participation are full responsibility of the Parties. The Agreement will only provide recommendations for states to meet these commitments, but no legal action can be applied. In sum, regarding these provisions the Agreement can promote values, but actions are only expected by political will of the Party members.

Peru

Balance of Trade

In 2016, the third year of the Agreement implementation, goods trade between the EU and Peru stood at $5,49 billion on exports and $4,36 billion on imports.



	2012	2013	2014	2015	2016
Exports (FOB)	$8.12	$7.02	$6.46	$5.48	$5.49
Imports (CIF)	$5.00	$5.20	$4.94	$4.46	$4.36
Balance	$3.12	$1.82	$1.52	$1.02	$1.14

Source: Ministry of Foreign Trade and Tourism, Peru, 2017

Figure 29. Peru-EU Balance of Trade in Goods

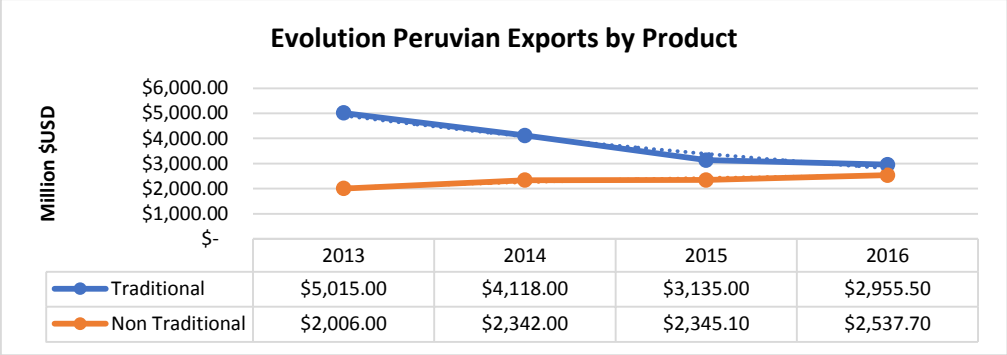
For Peru, the effects on the balance of trade with the EU since the implementation of the Agreement has been better compared to Colombia. However, exports have still decreased in the period 2012-2016 in 32,4% (also argued by the price drop of commodities, in the case of Peru metals and other goods from the mining sector), while imports have decreased 12,9%. Peru has

kept a surplus with the EU in the trade of goods, but it has been declining over the years. The EU is still the third trade partner for Peru (after China and United States) and EU accounts for 14% of Peruvian total trade (EU Delegation to Peru, 2016).

Exports

Peru's main exports are also still led by primary goods. Peru traditional exports accounts for 53,8%. From this amount, 67,8% belongs to the metal mining sector, 14,9% to the agricultural sector, 10,7% are oil and natural gas goods, and 6,7% to the fisheries sector in 2016. The main goods of Peru's traditional exports are copper (32,4%), coffee (14%), natural gas (8%), gold (7,2%), tin (5,3%), etc. Since 2013, these goods have decreased their share in Peruvian export to the EU (Ministry of Foreign Trade and Tourism, Peru, 2016). The variation evolution will be presented in Table 2.

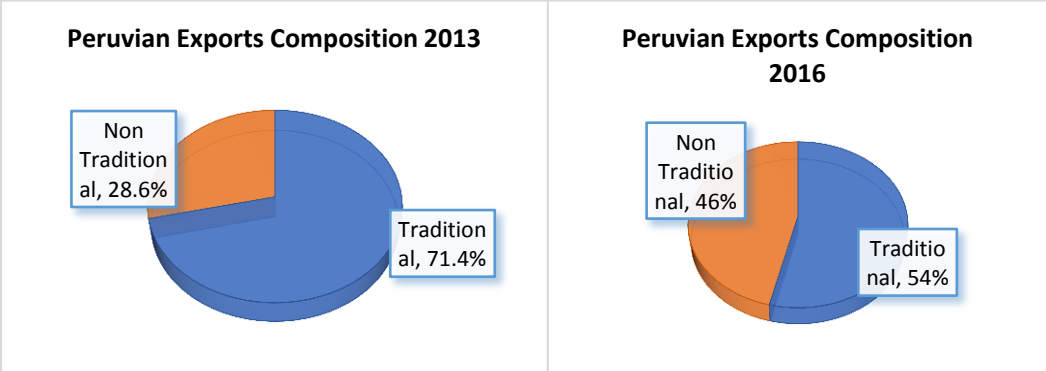
On the other hand, non-traditional products are taking over exports' share reaching 46,2% of total exports in 2016, before these accounted only 28,6%. For the non-traditional exports, agricultural sector accounts for 65%, fisheries 12,3%, chemist 7,2%, siderurgical/metallurgical 6,8%, textile 5,5%, metal/mechanic 1,1%, non-metal mining 0,5% and other sectors 1,2% (Ministry of Foreign Trade and Tourism, Peru, 2016). Figure 30. shows the behavior of traditional and non-traditional exports to the EU.



Source: Ministry of Foreign Trade and Tourism, Peru, 2017

Figure 30. Evolution of Peruvian exports by product

Traditional exports to the EU decreased in almost 40% while non-traditional exports increased 26% of total exports from 2013 to 2016. This behavior shows a similar pattern compared to Colombian exports. Traditional exports, mostly mining-related goods decreased because price fluctuations, and industrial requirements decline, etc. affecting Peruvian balance of trade with the EU. Therefore, non-traditional products increased their share in Peruvian exports since the demand remained the same and in some cases increased. As mentioned before, it can be observed in Figure 31., how non-traditional exports are becoming significantly relevant for Peruvian exports composition.



Source: Ministry of Foreign Trade and Tourism, 2017

Figure 31. Peruvian Exports Composition 2013-2016

Peruvian Exports Variation 2013-2016

	2014	2015	2016	Period Variation
Exports (FOB)	**-7,99%**	**-15,18%**	**0,24%**	**-21,77%**
Traditional	**-17,89%**	**-23,87%**	**-5,73%**	**-41,07%**
Agricultural sector	**-3,10%**	**-20,17%**	**22,48%**	**-5,26%**
Coffee	1,06%	-24,84%	25,99%	-4,30%
Sugar	38,46%	22,22%		69,23%
Others	-69,15%	-27,59%		-77,66%
Metal and mining Sector	**-19,60%**	**-18,81%**	**-13,10%**	**-43,27%**
Copper	-17,41%	-19,67%	-29,57%	-53,28%
Tin	13,42%	-39,32%	-7,73%	-36,49%
Minor metals	-2,25%	-22,81%		-24,54%
Gold	-49,41%	-10,76%	-21,07%	-64,37%
Refined silver	4,43%	-28,38%		-25,21%
Lead	-12,86%	-0,76%	16,21%	0,50%
Zinc	-12,30%	-13,99%	46,74%	10,67%
Oil and natural gas	**-32,02%**	**-42,44%**	**16,07%**	**-54,58%**
Petroleum derivates	-2,21%	-40,76%		-42,07%
Natural gas	-44,82%	-37,67%	25,75%	-56,75%
Fisheries	**9,60%**	**-44,53%**	**-0,45%**	**-39,48%**
Fish Oil	9,23%	-9,46%	-30,30%	-31,07%
Fish meal	9,87%	-71,06%	61,90%	-48,51%
Non-Traditional	**16,75%**	**0,13%**	**8,21%**	**26,51%**
Agricultural goods	19,95%	7,38%	11,68%	43,83%
Metal/Mechanics	94,74%	-22,01%	43,56%	118,05%
Non-metal mining	76,00%	-41,82%	-7,81%	-5,60%
Fisheries	23,14%	-9,54%	0,81%	12,29%
Chemists	-9,80%	-11,98%	35,46%	7,56%
Siderurgical/ metallurgical goods	5,91%	-4,69%	-5,53%	-4,64%
Textile	7,61%	-14,37%	-8,98%	-16,13%
Others	20,25%	-22,63%	6,46%	-0,95%

Source: Ministry of Foreign Trade and Tourism Peru, 2017

Table 2. Peruvian Exports Variation 2013-2016

In Table 2., the variation of traditional and non-traditional exports is shown in detail. Peruvian exports decreased as mentioned above, the reduction of export mainly affects products already exported under MFN duty free. However, there has been an increase in all other product groups, which are fully liberalized under the Agreement, partially liberalized, and those subject to a preferential tariff quota ((European Parliament-Policy Department, 2016).

The goods in which there was a big decrease of exports to the EU were from the metal and mining sector (43%) metals such as copper with a decrease of 53% since 2013, gold 64% and others have had an important decline. As shown in the table, petroleum derivates (42%) and natural gas (56%). In general terms, almost all traditional export goods from Peru have had a negative effect in the last years.

On the contrary, sectors benefitting from the agreement include: agro-industrial sector (43,8%), metal/mechanic (118%), chemicals (7,6%) and fisheries sectors (12,2). The Peruvian goods that have experienced the greatest growth in exports are bananas, which exceeded the quotas agreed in the Banana Agreement, vegetables, fruits and nuts (asparagus, avocados and grapes) and an important increase of sugar, confectionery and beverages and spirits exports (European Parliament-Policy Department, 2016).

According to the Annual Report of the European Commission, since the Agreement implementation 1.133 new Peruvian companies exported to the EU, from which 38% belong to the agricultural sector. It is stated that “most of the new exporting companies are SMEs (97.4%), but most of the new exporters (the remaining 2.6%) account for 68% of the total value exported by new companies.” (European Commission, 2016). In this period, Peru “exported 370

new tariff lines (10 digits) for a total value of USD 60 million (0.5% of total exports, of which half corresponds to oil raw)"(*Ibid*).

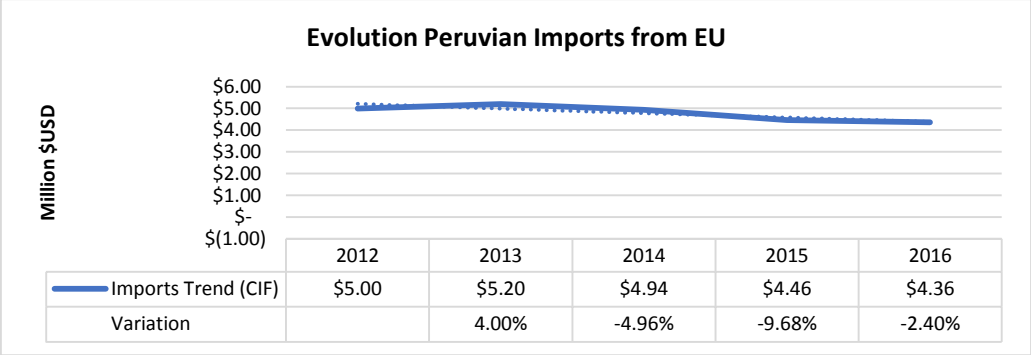
Source: Eurostat, 2017

Figure 32. Peruvian Trade Evolution in QTY

Regarding exports quantity, Peru also faced a decrease in total metric tonnes to the EU but not as significant as Colombia. In the period 2012-2016 Peru has reduced its goods exports to the EU in almost 12,5%, while EU has decreased its export to Peru in 14,8%. This is also a differential fact compared to Colombia to which EU increased its exports in almost 75%, a dramatic quantity increase. For Peru, the main importers within of the EU were Spain, the Netherlands, United Kingdom, Italy, Germany, Belgium, Portugal, France and Ireland.

Imports

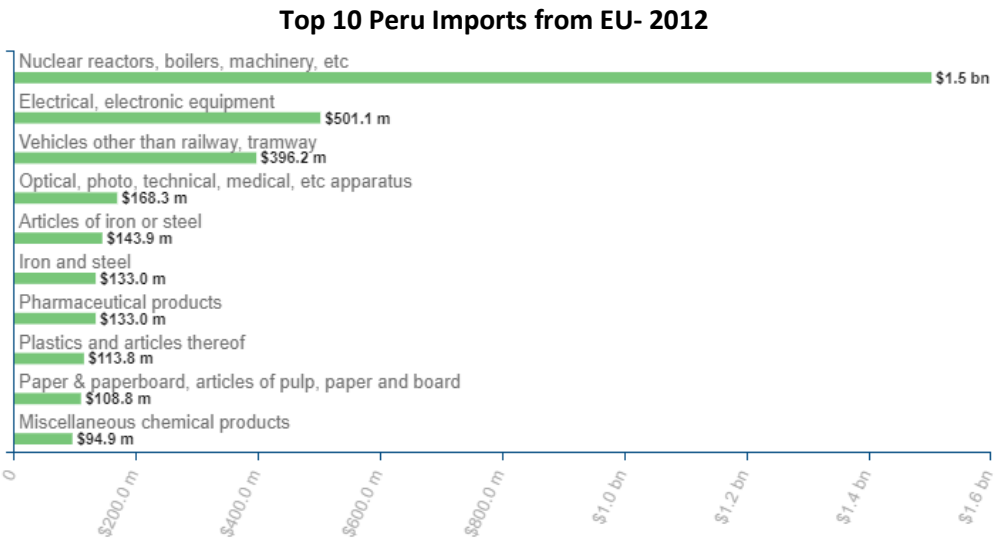
EU exports to Peru have experienced substantial variations since the Agreement implementation. In 2013, imports grew almost 4% compared to 2012, but since 2014 imports decreased because of a decline in machinery, steel and iron imports. In general terms, from 2012 to 2016 Peru has had a decline in 12,9% of imports from the EU. These amounts are consistent in values and quantities since quantities also decreased in 14,8% in the same period.



Source: Ministry of Foreign Trade and Tourism, Peru, 2017

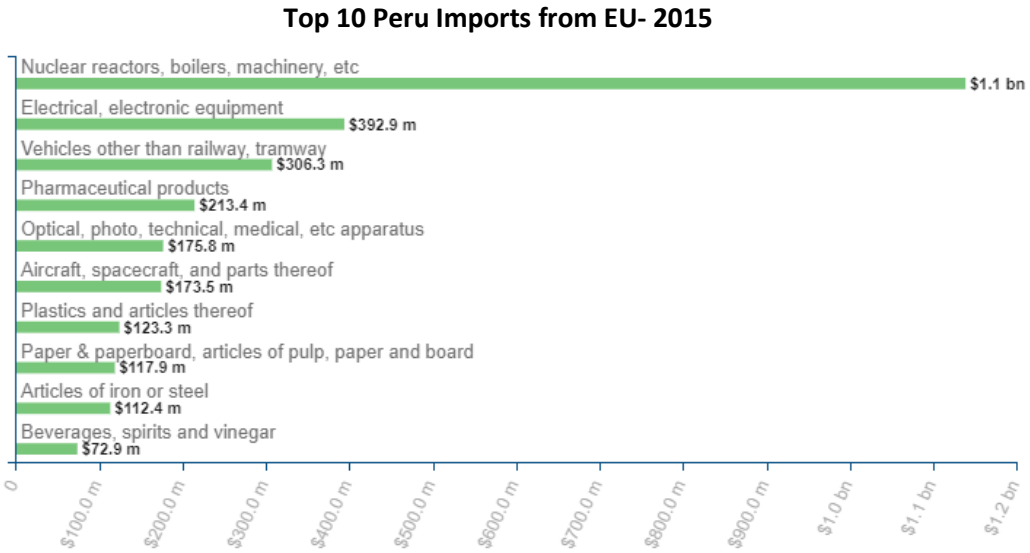
Figure 33. Evolution of Peruvian imports from the EU

The greatest decline of Peruvian imports is in the sector of metal and mining good (25%) and machinery and mechanical devices (9%), while the greatest growth are cereals, vehicles and pharmaceutical products. In figure 34- 35, it can be observed the variation in imports in 2012 to 2015.



Source: UN COMTRADE, 2017

Figure 34. Top 10 Peru Imports from EU- 2012

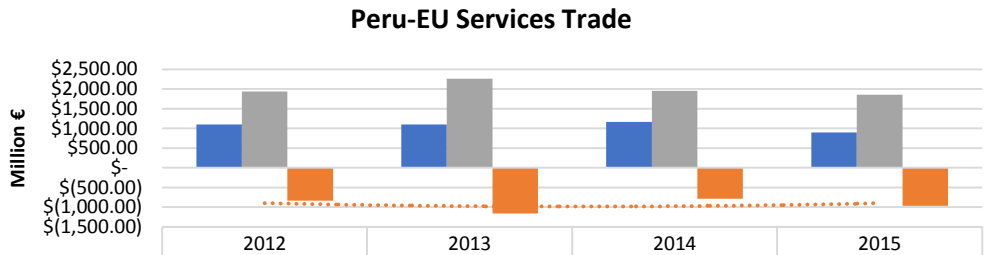


Source: UN COMTRADE, 2017

Figure 35. Top 10 Peru Imports from EU- 2015

In 2015 there is a general decrease in imports compared to 2012, but it is more significant for machinery, electrical-electronic equipment, vehicles, iron and steel, etc. However, there is an important increase pharmaceutical products and aircraft. The main suppliers within the EU for Peru were Germany, Spain, France, Italy, the Netherlands, the United Kingdom, Belgium, and Denmark.

Trade of Services



	2012	2013	2014	2015
Exports	$1,099.19	$1,103.29	$1,167.75	$892.52
Imports	$1,932.26	$2,262.34	$1,955.55	$1,852.85
Balance	$(833.07)	$(1,159.05)	$(787.80)	$(960.32)

Source: Eurostat, 2017

Figure 36. Peru-EU Service Trade

According to the data available, services' balance of trade between Peru and the UE in Figure 36. shows that Peru has a deficit as well as Colombia. From 2012 to 2015 exports of services have decreased in 18,8%, while imports show an increase of 4% in the same period. These figures show a weakness for Peru since deficit in this sector is significantly increasing.

Intellectual property - Geographical Indications

Regarding Geographical Indications Peru has initiated the process to add new GI to the list. In this matter, in 2016 Peru submitted a list of four new GIs. Moreover, in the Sub-Committee, Peru and EU have discussed about the protection of artists and medicines (European Commission, 2016).

Government Procurement

In this topic, EU has expressed its concern about Peru's ongoing reform that would make it impossible to delegate public procurement to international organizations, a practice that represent an issue of concern in this area to the EU (European Commission, 2016).

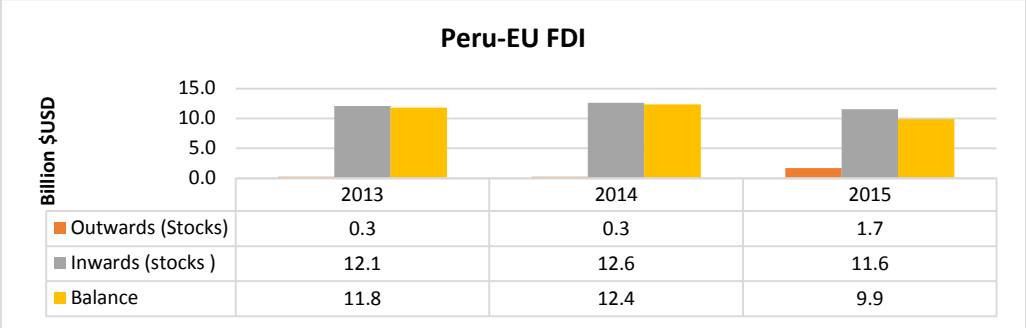
Technical Barriers to Trade

According to the TBT Committee, the EU raised the issue of Peru's pending application for "High Sanitary Vigilance" status for exports of pharmaceuticals and medical devices (Ibid).

FDI

Regarding FDI, EU investment flows to Peru have evolved in positive terms in 2013 and 2014 with an increase of 4,5%. These inflows are concentrated in the

financial sector, communications, mining, energy, industry, oil, and services, being the main investors Spain and the United Kingdom (Proinversion, 2015).



	2013	2014	2015
Outwards (Stocks)	0.3	0.3	1.7
Inwards (stocks)	12.1	12.6	11.6
Balance	11.8	12.4	9.9

Source: European Commission, 2016

Figure 37. Peru-EU FDI

National Legislation

Peru as well had to modify its national legislation on customs, customs procedure, and others to properly apply the Agreement. This process will be progressive as the nature of the Agreement itself. Additionally, as for Colombia, the EU eliminated the visa requirement for Peru, allowing its citizens to enter without visa and up to 90 days to the countries of the Schengen Area since 2015.

In the case of Peru, spirits taxation has also been a controversial issue in the Technical Barriers to Trade Sub-committee of the Agreement. “All imported spirits are subject to high taxes, and foreign exporters consider this differentiated treatment for pisco to be against the spirit and letter of nondiscrimination principles at the WTO”. The European Commission Delegation in Peru is in constant contact with the Peruvian government to address this matter. However, a full resolution of this matter will take time as stated in the Second Annual Report of the Agreement implementation published by the European Commission (2016).

Trade and Sustainable Development

In the case of Peru, Resolution 2628 was also signed by the country to "promote plans of action regarding institutional and legislative measures they would undertake to ensure the protection of human and labour rights" (European Parliament-Policy Department, 2016). Under the Road Map commitments Peru presented a strategy and action plan for the formalization of work and it also reported on progress in the implementation of policies to combat forced labor and the prevention and elimination of child labor. Moreover, Peru reported, that "the inspection regime of the National Superintendence of Labor Inspection (SUNAFIL) had been strengthened and a number of positive changes in the resolution of labor disputes and social dialogue were also highlighted." To fulfil this commitment, a national award was created to reward companies that apply good labor practices (European Commission, 2016).

Regarding environment protection, Peru has reported about the Legal and Political Framework for Environmental Issues, the Strategic Axis of Environmental Management in Peru, the National System for Environmental Action, the National System for Environmental Impact Evaluation and the National Service of Environmental Certification for Sustainable Investments (European Parliament- Policy Department, 2016). Beside these actions, Peru presented the Environmental Agenda 2015-2016 and highlighted the creation of a national environmental award as an incentive for the implementation of good practices (European Commission, 2016).

Even if some measures and plans have been implemented in the labor and environment fields, there are still negative impacts of the Agreement with the

UE and other Agreements implementation in Peru. RedGe, a platform of civil society organizations that attended a meeting that evaluates the environmental, labor and development impacts of the Agreement with the EU, indicated that the production of asparagus, a product that exponentially increased its exports to the EU "requires a lot of water in the desert Peruvian coast and leaves the populations without water." Additionally, it was indicated that the special labor Law No. 27360 (2000) which was approved “"temporarily' to facilitate agro-exports has been extended” and under this regime, there are no holidays, no maternal rights for the women that work in this sector (DW, Dec. 2016).

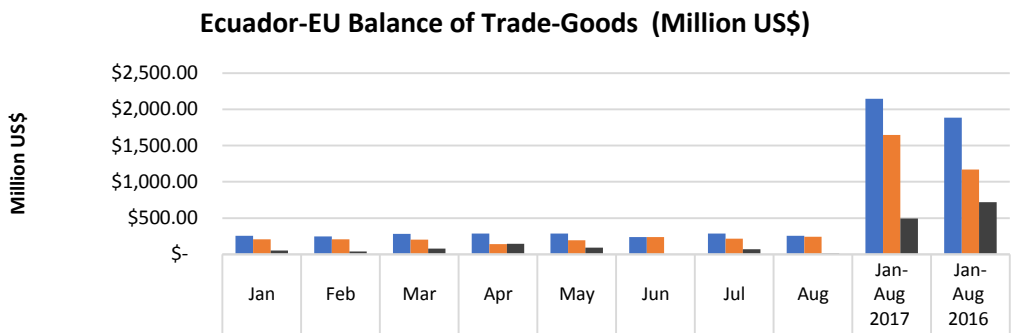
Regarding civil society participation, Peruvian government has established a mechanism for domestic consultation as mandated in the trade and sustainability chapter. However, “it has been reluctant to inform the Sub-Committee on Trade and Sustainability of the actual operation of the mechanism” (European Parliament- Policy Department, 2016). As in the case of Colombia and Peru, the Agreement provision on labor, environment and civil society participation are promotional and not legal binding. Only political will in Colombia and Peru will push the fulfillment of international conventions and protocols, and changes in national legislation. The Agreement can promote values, but actions are only expected by political commitment of the Party members.

b. Initial results of the Agreement Implementation for Ecuador

As previously shown in the results of the Agreement implementation for Colombia and Peru, it is important to consider that the results are being analyzed in the period of provisional implementation, the Agreement has not been fully implemented and it is expected full implementation by 2023. Even

though the implementation is in process, today it can be observed some effects in the balance of trade with the UE, changes in the exports and imports composition and trends, and progress referring the other provisions covered in the Agreement. Ecuador is implementing the Agreement since January 2017 and until August 2017 initial and partial results can be observed.

Balance of Trade



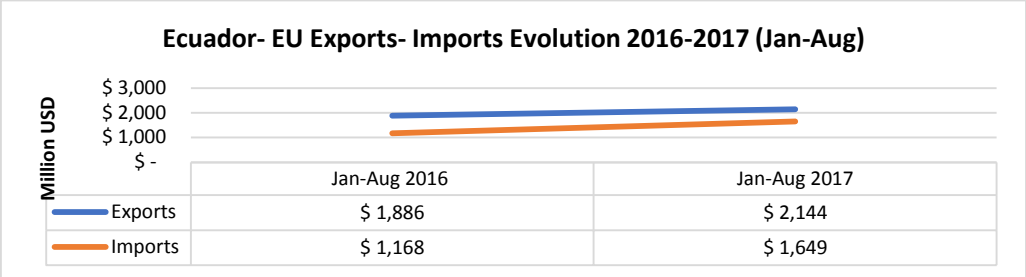
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jan-Aug 2017	Jan-Aug 2016
Export (FOB) to EU	$257.90	$247.39	$282.51	$288.22	$286.98	$239.97	$286.08	$255.09	$2,144.	$1,886.
Imports (CIF) from EU	$206.52	$207.08	$204.91	$141.07	$194.22	$236.67	$214.56	$243.50	$1,648.	$1,168.
Balance	$51.38	$40.31	$77.60	$147.15	$92.76	$3.29	$71.52	$11.60	$495.61	$718.15

Source: Central Bank Ecuador 2017

Figure 38.. Balance of Trade Goods Ecuador-EU

According to Figure 38., it can be observed how in the first semester of 2017, exports and imports have increased. From January to August the balance of trade with the EU has maintain a regular pattern in exports evolution but an increasing pattern in imports.

Exports



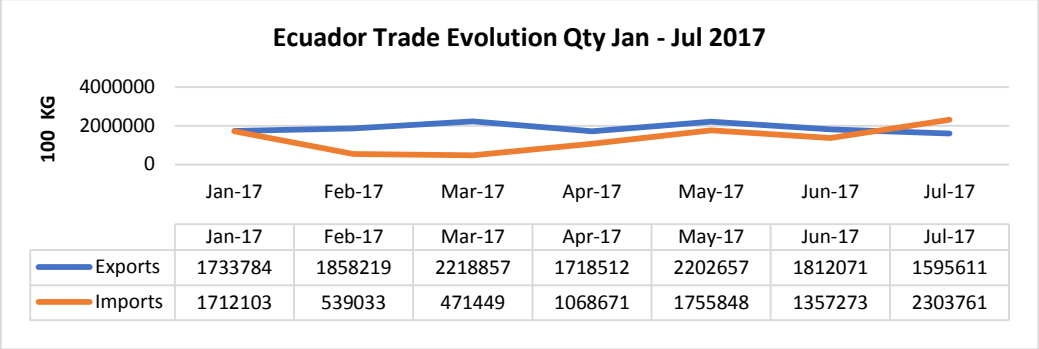
Source: Central Bank Ecuador 2017

Figure 39. EU-Ecuador Exports-Imports Evolution 2016-2017 (Jan-Aug)

Compared to 2016 (January-August) Ecuadorian exports to the EU have increased 14%, while imports from the EU increased 41%. It is important to consider that since 2016 Ecuador has progresivelly eliminated the safeguard applied in 2014-2015 to meet international commitments (WTO) and prepare for the Multiparty Agreement. Thus, imports increase responds to this reduction, plus the preferential access of EU imports after the Agreement came into force. Also, it is important to consider that Ecuador's main exports to EU are non-oil goods, which have maintained a relatively stable price compared to metal and mining goods that affected significantly the balance of trade with Colombia and Peru. For Ecuador, the main effect is that exports have maintained or even increased, situation that would not had happened if the Agreement was not signed.

Under these considerations, the increase of 14% in Ecuadorian export to EU is remarkable, since Ecuador is trying to decrease oil revenues dependence, increasing trade with the EU, the major non-oil importer of Ecuadorian products. Additionally, Ecuador is trying to diversify its exportable product supply and increase the value-added component of Ecuadorian exports, so in this aspect, economic agents of both Ecuador and the European Union are

aware of the potential of non-traditional products, and processed traditional products trade.



	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17
Exports	1733784	1858219	2218857	1718512	2202657	1812071	1595611
Imports	1712103	539033	471449	1068671	1755848	1357273	2303761

Source: Eurostat, 2017

Figure 40. Ecuador Trade Evolution Qty Jan - Jul 2017

Nonetheless, regarding exports and imports quantities, in the period analyzed, Ecuador has maintained a regular amount of goods exports to the EU. However, as Figure 40., shows EU is rapidly increasing its export to Ecuador.

Moreover, it is important to mention that almost "1500 Ecuadorian companies export directly to the European market, of these 60% are SMEs. This relationship generates 300 thousand direct jobs and 500 thousand indirect jobs, linked, for example, to the provision of packaging, services and logistics." (Cueva, D. 2014)

Another issue to consider is that EU market share is very competitive, and Colombia and Peru are the main competitors for Ecuador in several goods, since they have similar exports products supply. For example, banana, flowers, shrimp, tuna, cacao, chocolate, processed coffee and others are the main Ecuadorian exports to the EU. For the period the Agreement was in force for Colombia and Peru, it signified losses for Ecuadorian products which were

granted a temporary preferential access by GPS+, but did not had an Agreement support and enforcement as the products from Colombia and Peru.

In the case of banana, the Agreement provided a tariff reduction for Colombian and Peruvian bananas from €132 per ton in 2013 to €97 in 2017. This tariff reduction will continue until it reaches to €75 per ton by 2020. From 2012 to 2015 this product experienced a huge growth for both countries. In fact, since the Agreement is in force for Colombia and Perú, Colombian bananas export in 2013 to 2015 surpassed total Ecuadorian exports becoming the 1st exporter of bananas in the EU (El Universo, 2016). For Peru, bananas exports increased that much that the amounts reached the contingent roof and trigger the Stabilization Mechanism for Bananas which was created within the Agreement regarding import to the EU market.

This increase implied losses for Ecuadorian bananas exports. Considering this fact, Ecuador must do a great effort to recover the EU banana market share. Since the Agreement is in force (January 2017) Ecuador bananas tariff per ton is €97 as the other Parties, before the Agreement tariff for Ecuador was €122. Therefore, Ecuadorian exporters are saving €25/t about €34 million per year (EU Delegations to Ecuador, 2017). Consequently, Ecuador should try to recover EU market leadership on bananas. Nevertheless, the country should take into consideration that the volume of exports does not exceeded the trigger import volume because the stabilization mechanism could be activated, and it would imply "investigations to determine whether the higher imports of bananas are affecting banana prices within the EU market, and if so, a suspension of a further reduction of the rate of customs duty provided in the Agreement's Tariff Elimination Schedule" (European Parliament- Policy Department, 2016).

Regarding shrimp, Ecuador is the main exporter to the EU and before the Agreement it paid a tariff of 3,6%. Additionally, the Agreement brings the possibility to defend the market share from a better tariff position that the one achieved through GSP+ tariff preference. This reduction to 0% tariff improves the competition conditions against Colombia and Central American countries which obtained the same preference from the entry into force of Agreement. The agreement will help to defend a market equivalent to 200 million pounds of shrimp and will provide more stability to the investments of European companies (production chains) in the national shrimp sector (European Parliament- Policy Department, 2016).

The EU concentrates almost of 60% Ecuadorian tuna and its preparations exports. This product is benefiting from a preferential access with the Agreement, while under the MFN (most favored nations) condition the third countries are subject to a tariff of 24%. Nonetheless, these years Ecuador lost its position in the EU market since several countries gained preferences before Ecuador as the case of Peru (EU Delegations to Ecuador, 2017).

Cacao is another important product for Ecuador. It is the fifth supplier of cacao for the EU followed by Peru. Exports of cacao beans to the EU are 90% total Ecuadorian cacao bean exports. However, in 2015 cocoa powder export to the EU were almost doubled by Peruvian exports. Also, Ecuadorian chocolate exports are surpassed by Colombia (EU Delegations to Ecuador, 2017).

Flower sector as well is benefiting from the agreement implementation, flowers and buds, cut for bouquets or ornaments, including roses, now enjoy duty-free access (without preferential access 8,5% tariff). In Ecuador, is the fourth

exporter to the EU and this sector is mostly composed of SMEs (EU Delegations to Ecuador, 2017).

According to ProEcuador, it is expected that exports of fruits (pineapple, papaya, mango, etc.), frozen vegetables (broccoli), extracts, essences and concentrates of coffee, fruit and vegetable juice, wooden manufactures, palm oil, tobacco, confectioneries and other increase its volumes and share in EU market. These Ecuadorian products have a great potential, but in some cases the market is highly competitive with Colombia and Peru.

In sum, with the Agreement, Ecuador has better conditions to compete in EU market, since a preferential access is given to its non-oil traditional exports. In fact, traditional and some non-traditional products are benefiting of a 0% access to the EU. Nonetheless, as in the case of Colombia and Peru, until now, the agricultural, fisheries and agro-indutrial sectors are the most benefited, while other industrial sectors are not seeing much benefits with the Agreement but a possible threat.

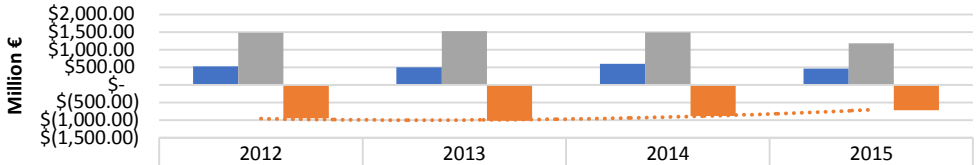
Imports

Regarding imports, the EU benefits from improved access for key exports such as machinery (mostly all products free access and some to be liberalized in 50 to 10 year), mineral fuels, oils and others, pharmaceutical products, electric machinery and equipment (all duties eliminated within 5 to 10 years), vehicles and vehicle parts (7 to 10 years to liberalize). During the last semester of the Agreement implementation, EU export to Ecuador increased in 41%. Fruits, vehicles, ceramics, machinery, fuels and mineral oil, and liquors are some of the products of the EU that entered the country. This important growth could

become an issue for the still weak Ecuadorian industry and the dollarized economy.

Trade of Services

Regarding service trade, there is no updated data in this sector, but Ecuador as the other Andean countries has a deficit in the balance of trade. Because of the Agreement, the EU liberalized its services, Ecuador should make use of this opportunity to enhance this sector locally and abroad.



	2012	2013	2014	2015
Exports	$520.67	$496.55	$593.84	$455.71
Imports	$1,474.58	$1,522.83	$1,483.93	$1,174.84
Balance	$(953.92)	$(1,026.29)	$(890.09)	$(719.13)

Source: Eurostat, 2017

Figure 41. Ecuador-Eu Service Trade

Moreover, Ecuador is working in the register of "Arriba" cacao and "Montecristi" hats in the list of Geographical Indications. Also, Ecuador has modified its national legislation on customs, customs procedure, and others to properly apply the Agreement. This process will be progressive as the nature of the Agreement itself.

One of the pending actions is that Ecuador has to accept the self-declaration quality certificate of the UE exporter that the product complies with EU technical regulations. Moreover, Ecuador should make every effort to adhere to the Madrid Protocol on trademark registration (El Universo, 2016).

Additional information and data on the implementation of other elements of the Agreement such as TBTs, SPSs, intellectual property, government procurement, trade and sustainable development are not available yet. However, considering the issues observed in the cases of Colombia and Peru, some policy recommendations could be provided.

c. General Result Evaluation

Colombia and Peru

After presenting the results of the Agreement implementation for Colombia and Peru regarding the balance of trade with the EU, the composition and trends of exports and imports and the progress on the additional elements covered by the Agreement, it can be argued about the significant effects for these Parties trade relations.

It is important to consider that greater impacts on the countries trade patterns and impacts on the macroeconomic indicators will occur over time, and in the case of the Agreement implementation, it will produce clearer effects once the Agreement is fully implemented. Moreover, it is important to consider that data on trade is available, but specific data on the Agreement implementations is partially available. However, the initial results collected and analyzed in the present study will be useful to further exiting studies and propose policy recommendations for Ecuador, which is in the first year of implementation of the Multiparty Agreement.

With these considerations, it can be said that initial data shows that Colombia, Peru and the EU have had significant effects from the Agreement implementation. Despite the economic slowdown of the Andean countries and the drop of the commodities price in international markets, which doubtless

affected trade flows with the EU, it can be observed some benefits and drawbacks for Colombia and Peru during the Agreement implementation period.

The evolution of trade between the Parties is quite negative in general terms. Colombian and Peruvian exports to the EU have decreased from 2012 to 2016, but this is a general trend for both countries exports to the world. For Colombia, exports values to the EU decreased 45% and export quantities in 18%, producing a deficit in balance of trade. Peru's exports also decreased its values in 32% and 12% in quantities. Peru still have a surplus in the balance of trade with the EU, but this amount is declining over the years. Likewise, imports from the UE to the Andean countries have decreased, but not as dramatically as the exports from these countries. This issue showed the vulnerability of the Colombian and Peruvian exports due to the fluctuations of commodities international prices and the economic dependence on these types of goods. Also, it is relevant to consider that even if the values of imports from the EU for Colombia have decreased in the period 2012-2016, quantities have increased in 75%. This issue is of great concern, since the increasing trend of industrialized good from the EU could harm national industries and sensitive sectors.

For Colombia and Peru, traditional exports (mostly primary goods) are still the main revenue for their economy. High concentration of trade on primary export is a weakness for those countries since this kind of goods are sensible to international shocks as the fluctuating commodities international prices.

However, there are specific sectors that have greatly benefited from the Agreement preferential market access to the EU. Some Colombian and Peruvian goods have increased exports amounts and promoted new tariff lines. In this aspect, the growth of non-traditional and more processed exports to the

EU has been promising. For both, Colombia and Peru the increased access to the EU market has boosted the export some agricultural goods (banana, shrimp, coffee, cacao, flowers, grapes, etc.), agro-industrial goods (sugar, processed coffee, confectionery, palm oil, beverages and spirits, etc.) and some light manufactured goods (footwear, plastic products, publishing products, etc.). Nevertheless, there are some sectors and industries in Colombia and Peru that are still in transition and need to be structurally strengthen so they can be more competitive and less affected by the trade liberalization.

Moreover, an important result from the Agreement implementation is that more of SMEs in Colombia and Peru are exporting to the EU. 606 Colombian companies and 1133 Peruvian companies have exported to the EU for the first time since the entry into force of the Agreement, many of them are SMEs.

For the EU, exports to Peru have experienced very moderate growth and remain concentrated in machinery, vehicles, pharmaceuticals and chemicals. In the case of Colombia, as mentioned above, EU exports have increased significantly in aircraft, machinery, vehicles, and pharmaceuticals.

Regarding services, Colombia and Peru have not had a good performance in promoting this sector, so the Agreement has not been fully exploited in this aspect. FDI on the other hand have had an increase in the total FDI stocks inflows from the EU to Colombia and Peru. This is a great benefit of the Agreement since it provides more stable conditions and mores guarantees for the investors.

The implementation process has been satisfactory in several areas, but others are still in process. Sub-Committees of the Agreement are dealing with the implementation of obligations of the Parties regarding sanitary and

phytosanitary measures in Peru and in the taxation of spirits in Colombia and Peru. It is also of concern the implementation of the commitments on access to procurement markets at the sub-central level in Colombia and participation of international organizations in Peru.

Regarding people's movement, EU granted Colombia and Peru visa exemption for their citizens up to 90 days to the countries of the Schengen Area since 2015. This is a benefit for entrepreneurs to promote national products in business mission to the EU.

Finally, regarding the provision on trade and sustainable development, it has been reported a good progress in legal transposition of ILO and environmental conventions. The mechanisms created by the Agreement to promote these values and enhance civil society participation are working, but not as good as expected in Colombia and Peru. Additionally, labor issues in some sensitive sectors (outsourcing) are still not meeting proper labor conditions in detriment of the society. Also, civil society groups have expressed concerns about the social and environmental effects of exports growth. As mention before these issues are not legal binding but need a higher supervision and promotion between the Parties are needed.

Until now there are no clear winners of the agreement implementation. Besides, it has been argued that until now the Agreement has had the expected results and it has not promoted much diversification, but rather enforced an accentuation on the economic dependence on primary goods. Thus, Colombia and Peru must take advantage of the range of opportunities that international trade and more specifically the Multiparty Agreement brings, not to ratify its dependence of traditional goods (mostly primary goods), but to increase export

of goods with “greater technological value and added value, strengthening the national business structure, and eliminating the bottlenecks of the non-traditional sectors which should become strategic for the national agenda” (CID, 2015) since these have had a good performance in the EU market and had an increasing demand. Avila argues that public policy in Colombia should have some improvements since “the country insertion in international markets have been a failure” (Avila R., Sanchez L., 2015). Nonetheless, Colombia is already committed in several FTA, as the one with the EU, so it is imperative to the country to enhance its national capacity to improve the terms of trade with the EU. In the case of Peru, it is also relevant to promote non-traditional export that are having a good demand in the EU, so the country could be able to maintain its surplus with the EU and reduce its dependence of the metal and mining sector.

Ecuador

In the case of Ecuador, the country got several benefits from the accession to the Multiparty Trade Agreement with the EU. Trade barriers are eliminated (tariff and non-tariff) and a preferential access to the EU market is granted to Ecuador, so it is expected that these benefits would increase Ecuadorian exports’ competitiveness. Additionally, the Agreement provides more stable trade relations for the country, at least with the EU, since Ecuadorian exports were facing a harsh international panorama with the Dollar appreciation and a drop of oil and other commodities prices. These stable conditions could lead as well to an increase of the confidence of national and foreign investment. It is expected that the Agreement implementation secures better prices for consumers in Ecuador and the EU. Nonetheless, Ecuador should also consider the possible negative effects the Agreement will have in specific economic

sectors, in the society and the environment as previously shown in the cases of Colombia and Peru.

In Chapter 3, policy recommendations will be provided regarding the Ecuadorian strategy of trade openness by the promotions of trade agreements and more specifically policy recommendations for the implementation of the Multiparty Agreement based on the positive and negative results observed in the cases of Colombia and Peru, so Ecuador could better profit from these potential benefits and reduce the possible negative outcomes in the fields previously analyzed.

CHAPTER III

POLICY RECOMMENDATION

i. Trade Openness Strategy by Promoting Trade Agreements

As covered in Chapter 1, since 2013, Ecuador has changed to a more pragmatic policy regarding foreign trade and more important regarding the promotion of trade agreements. Even though Ecuador mostly pursues comprehensive agreements that consider national conditions, such as the one with the EU[14] the country is devoting all its efforts to expand the network of trade agreements to increase foreign trade. It has become a national priority to Ecuador due to the need of diversifying its income sources and increasing revenues since the country has a dollarized economy and foreign debt and unemployment have been escalating in the last years. Moreover, Ecuador is still facing meaningful challenges to effectively become an upper-middle economy such as limited productivity and high dependence on primary goods, specially oil dependence due to the high weight of oil in the country's economic relations with the rest of the world. In this matter, the strategy of negotiating and implementing trade agreements and increase its participation in foreign markets represent a feasible option to meet those challenges and overcome these economic constrains.

In 2016 trade represented 23,7% in Ecuador's GDP. However, even if foreign trade represents an important component for Ecuador's GDP and a relevant an income source for a dollarized economy, the country has a limited participation in world trade of goods and services. Additionally, Ecuador has faced a harsh international situation that impacted on the country's trade balance, and only

[14] Not called officially FTA by the Ecuadorian government, but Trade Agreement for Development.

after the safeguard measures applied in 2015 the balance of trade has had a positive evolution because of the decrease in imports. Moreover, considering the evolution of the trade openness ratio presented in Chapter 1, it can be argued that trade liberalization in Ecuador reduced since the implementation of those protectionist measures to stabilize the economy. In sum, considering that the protectionist measures were only temporal, Ecuador needs to enhance its strategy of promotion of trade agreements mostly to increase its export and contribute to increase incomes, so the Ecuadorian economy will be stable.

Under these conditions, policy recommendations regarding the Ecuadorian trade openness strategy by the promotion of trade agreements are the following:

1. Even if in the last years protectionism measures have been increasing, the global trend is still related with trade liberalization. Therefore, the strategy of inserting Ecuador in the international market is the most beneficial choice to increase the country's share of relevant markets such as the EU, EFTA, Asia, etc., and maybe in the future the United States with which Ecuador remains cautions and reluctant to start negotiations of a trade agreement even if it is the main trade partner for the country.
2. Ecuador needs to increase the flows of foreign trade, mostly exports, so by increasing the preferential access of Ecuadorian products, under the figure of regional trade agreements with its trade partners, more exportable markets will open-up. Therefore, Ecuador should ratify the Agreements signed with Salvador, Nicaragua and finish the negotiations with Honduras, EFTA, and South Korea. Additionally, Ecuador should continue its prospective missions of trade partners to continue its liberalization strategy and diversify the destinations for Ecuadorian

exports. Moreover, it is expected in a few years that Ecuador join Mercosur. This is a great opportunity for the country regarding regional integration and a bigger regional market.

3. Ecuador needs to maintain a positive result in the balance of trade because of its dollarized economy. However, in the last years, the country had a surplus just because of the protectionist measures such as the safeguards it has applied. Now because of the commitments with the WTO and the EU, these measures are being eliminated, so Ecuador needs to use its productivity to maintain this positive balance. In the next section, policy recommendations will be provided regarding productivity and competitiveness enhancement.
4. Commodities represent for Ecuador almost 80% of total exports. Therefore, the country needs to increase the share of exports of products with high, medium, low technological intensity by complementary productivity promotion policies (also covered in the next section).
5. Peru and Colombia have prioritized the foreign sector and promoted an aggressive trade liberalization policy. In fact, these countries (as many other on the region) are much more advanced in the economic liberalization process. However, in the case of Ecuador, this strategy should be cautions since Ecuador is a dollarized economy, so currency devaluation and other monetary policies to boost exports are not an option for the country, and international shocks affects directly to the Ecuadorian economy. Therefore, trade agreements negotiated by the country should consider this issue. As in the case of the Multiparty Agreement, Ecuador has the option to apply safeguard measures to capital movements if the economy liquidity is somehow facing any threats that could cause serious difficulties for the country.

6. Additionally, the country should consider a SMEs' inclusion and enhancement provision in the negotiation of trade agreements since the exporting sector in Ecuador is composed of a small group of enterprises (Morán D., 2015). This provision will prevent some negative impacts, as an increasing income gap within the population that usually traditional trade agreements bring along.
7. Ecuador needs to promote trade liberalization, but government should consider that there are always losers from this policy. In response, government should design "appropriate policy response to those cases, alleviate the hardship and facilitate adjustments" by identifying the affected groups or sectors, providing proper measures and considering that "adjustment costs are typically smaller, and sometimes much smaller, than the gains from trade" (WTO, 2013).
8. Also, Ecuador must consider that good governance is closely related to better outcomes of any policy applied, in this case trade openness. The country needs to develop and strengthen national institutions public and private (all the agents involved in foreign trade) to have stronger functional actors, a strong legal system for the protection of fundamental rights and property and proper enforcement of contracts. This will lead to more stability, better conditions for trade relations and an increase of FDI inflows to the country. Otherwise, as Van den Bossche and Zdouc stated, globalization and international trade will only "bring poverty, corruption and exploitation." (Van den Bossche, P., Zdouc, W., 2013).

ii. Multiparty Trade Agreement implementation for Ecuador

Ecuador and the EU trade and cooperation relations started in 1993. EU is the main trade partner for Ecuador after the United States. This bloc accounts for almost 17% of the country's total exports, particularly non-oil exports, and 11% of imports (2016). Considering these facts between Ecuador and the EU trade relations, it can be argued the relevance of the European market for the Ecuadorian economy. This relevance for the country's economy and development is materialized in the Multiparty Trade Agreement signed with the EU in 2014 and in force since January 2017. Moreover, since Ecuador is pursuing important changes related to the transformation of the productive matrix, a reduction of the dependence on oil revenues, and an increased share in international markets, a trade agreement with the European Union, as one of the most powerful economies and the greatest common market, represents for Ecuador a milestone for its strategy of trade liberalization.

Additionally, it is important to consider that historical and political conditions altered the commercial relations between Ecuador and the EU and more important affected the regular pace of the negotiation process of the Multiparty Trade Agreement.

It is important to mention that in the past, EU and Ecuador faced a few commercial encounters. The dispute on the tariffs of Ecuadorian bananas entering the EU market affected political relations, trade flows and was one of the reasons why the negotiations process of the Multiparty Agreement with Colombia and Peru was cancelled by the Ecuadorian government in 2009. Once this issue was solved, and as the former Ministry of Foreign Trade argued, "Ecuador was in a better position to negotiate", the negotiations were

reintroduced (Ministry of Foreign Trade, 2015). Additionally, it is important to consider that Ecuador resumed the negotiation process because the EU announced in 2013 that Ecuador would maintain the GSP+ only until 31 December 2014. This regime allowed the preferential entrance of almost 6000 products to the EU with 0% or very low tariffs. Thus, without the preferential regime Ecuadorian exports were no longer competitive in EU's market. Also, since 2013, the EU is implementing the Multiparty agreements with Colombia and Peru, which altered the conditions of competition of some Ecuadorian products in that market. Even though by that time Ecuador was granted with some preferences under the GSP+, it was not a guarantee for better conditions in comparison to our neighboring countries, harming national competitiveness.

Under these conditions, Ecuador negotiated and signed the Multiparty Agreement with the EU in December 2014, expecting to maintain and increase trade preferences of its exports to the EU market.

It was expected several benefits from the Agreement regarding opening markets for goods, services, government procurement and investment. The European Commission states that the Multiparty Agreement "is accounted to save on import duties alone worth some around half a billion Euros €500 million at the end of transition periods" (European Commission, 2017), reduce costs that will have a direct beneficial impact on growth, employment and general well-being for the Parties. Studies on the impact of the Agreement argued that the Multiparty Agreement could increase the GDP of Colombia by 1.3% and Peruvian GDP by 0.7% in the long term. Moreover, about the effect on imports and exports it was expected and increase by 6% in the medium term and by 8% over the long run and direct positive effects for local producers of agricultural goods sectors, manufacturers of light industrial goods and heavy industrial

goods sectors (European Commission, 2012). Also, it is expected to offer better conditions and mores stable environment for trade between the Parties provided the rules on goods and service trade, non-tariff barriers, competition, transparency and intellectual property rights, bilateral dispute settlement mechanism, cooperation on competitiveness, innovation, production modernization, trade facilitation and technology transfer as well as promotion and preservation of high labour and environmental protection, including a transparent arbitration system and procedures to engage with civil society (European Commission, 2017).

Considering the comparative review and evaluation applied to the results of the three-year implementation of the Multiparty Agreement for Colombia and Peru, and the initial results for Ecuador, it can be argued that the trade evolution with the EU is not as positive as expected when the Agreement was signed. Therefore, specific policy recommendations will be presented for Ecuador, as a strategy to better profit from the Agreement implementation, since the results obtained until now with the Agreement are not good enough, so complementary measures are needed to promote competitiveness and prevent a possible reprimarization of the economy.

With a better understand of the possible impacts of the Multiparty Agreement for Ecuador, specific policy recommendation will be provided. It is important to mention that the policy recommendations will be prioritized according to the effects observed of Colombia's and Peru's trade with the UE in the last three years of the Agreement implementation. The policies provided are focus in the following seven areas: diversification of products lines and markets, exports competitiveness by reduction of production costs, SMEs productivity and capacity enhancement, national and regional partnerships, differentiations of

products, services exports enhancement, and institutional enforcement. These recommendations are relevant since it is necessary to take complementary actions to better profit of the Agreement, considering the quite negative results for Colombia and Peru until now, and despite the initial positive outcomes for Ecuador trade with the EU.

1. **Diversification of products lines and markets**

When it comes to Ecuador's trade, it can be argued that it mostly relies on agricultural goods and low value-added manufactures exports and finished products imports. Commodities for Ecuador's exports represent almost 80% of total exports, so the country needs to diversify Ecuadorian exports and more important encourage the production and export of high value-added products to reduce the economic dependence on oil.

Ecuadorian exports to the European market are concentrated in a few products, most of them corresponding to the area of fruits (bananas, pineapples, etc.), vegetables, fish, shrimp, tuna, coffee, flowers and cacao (traditional non-oil products). This represent an advantage for Ecuador because trade relations with the EU are not dependent on oil, so these are not much affected by the fluctuation of oil prices, and there are more opportunities of Ecuador to reduce its dependence of oil in total exports by an increase of products exported to the EU. On the other hand, this is a disadvantage since traditional non-oil products such as the above-mentioned have several suppliers from all over the world to the EU, including Colombia and Peru. Moreover, as mentioned in Chapter 1, the EU is the second major importer of non-traditional Ecuadorian products. Indeed, the EU market has a great export potential for this type of goods as shown in the positive results the country has had until now.

Consequently, considering the exports trend of Ecuadorian products with the EU, and the outcomes for Peru and Colombian, Ecuador should focus on the following recommendations

a. For Colombia and Peru, the agricultural and agro-industrial sectors were the most benefited from the Agreement implementation. It is possible that Ecuador will follow the same trend, so the Ministry of Production, Employment and Competitiveness of Ecuador (which coordinates these sectors) must promote policies to enhance the productivity of these sectors to respond to the increasing demand of the EU and to promote the industrial innovation as well.
b. Nonetheless, Ecuador should make sure that the affected sectors of the Agreement, (basic industry in the case of Colombia and Peru), have enough support measures to prevent the infant industry in Ecuador disappears because of the increasing imports from the EU.
c. Even though in agriculture sector the EU deals carefully to preserve the strategic interests, the Agreement allows the access of industrial goods with 0% of tariff, the entire supply of Ecuador of manufactured and fisheries goods have this preference. Therefore, this advantage should be exploited by the country, enhancing the productivity of the local industry in this sector, not by protectionist measures, but innovation and development.
d. Moreover, Ecuador and the other Andean countries are benefited from a differential Tariff Elimination Schedules, which implies a progressive reduction of tariffs. Therefore, Ecuador has the advantage to progressively enhance national industry according to this schedule.

e. It is necessary for the country to diversify its exports lines to better compete in the EU market since Colombia, Peru and other Latin American countries have the same exportable products. Moreover, the country is almost four years behind Colombia and Peru regarding the access conditions to the EU. Therefore, Ecuador needs to attract more investment to expand its access, increase volumes and create more distribution channels of traditional and mainly non-traditional exports to the EU.
f. Additionally, considering exports diversification, Ecuador needs to make sure non-traditional exports could meet the volumes and sanitary requirement requirements from the EU, and consider the increasing participation of smaller, niche products in the EU.
g. Also, Ecuador should enhance the production of processed traditional products, meaning traditional products with a value-added component, which should become a priority for the country to improve its competitiveness and recover its market share in the EU.
h. Ecuador is already implementing some programs to enhance the productive sector such as “EmprendeEcuador”, “InnovaEcuador”, “InvestEcuador” and “CreeEcuador”. These programs should consider an export perspective, so more products lines are created to be exported to the EU.
i. It is important to acknowledge that in the past months of the Agreement implementation, some Ecuadorian producers have invested in new technologies, production processes, logistics and distribution, these efforts should be supported by the Government by the promotion of Ecuadorian exports in the EU.

j. Regarding exports destinations within the UE, these have mostly remained the same, Spain, Germany, Italy, Netherlands, France, Belgium, Luxembourg and the United Kingdom, which concentrate 90% of Ecuadorian exports. Nonetheless, it is important for Ecuador to take advantage of the whole market of the EU and expand exports destinations and opportunities in central and eastern Europe.
k. To do so, ProEcuador the national Agency of exports promotions should help exporters to find new destinies to promote traditional and non-traditional exports by business rounds, information promotion, investment opportunities, etc.
l. It is also necessary to develop better logistics services to better reach traditional destinations and the new ones.

Colombia and Peru are still far to properly fulfill from the preferential access to the EU market, and Ecuador may follow the same path if it does not implement complementary policy to promote exports diversification, enhance national industrial capacities and expand the destinations within the EU market.

2. Exports competitiveness by reduction of production costs

Ecuador cannot compete properly with the other Andean countries regarding monetary policy and exchange rate that benefits exports from Colombia and Peru. Nonetheless, Ecuador should promote a strategy of exports competitiveness based on a reduction of production costs. In this aspect, Ecuador has done an important effort to transform the productive matrix to increase national industrial capacity and better respond to the demand of international markets. This strategy is in process and there is still a lot to do.

However, this complementary policy can help local produces to become more competitive in their production processes.

a. The transformation of the productive matrix [15] considers the improvement of national infrastructure (roads, ports, airports, etc.) and important progress have been made in this area. Continuing this strategy could guarantee better logistic conditions for Ecuador resulting in less costs and time. The reductions of costs will directly impact on the exports prices, making them more competitive.
b. Another of the actions in the strategy is to change the energetic matrix of the country from fuels and gas sources to hydroelectric sources. This strategy can help Ecuadorian enterprises and local entrepreneurs to reduce cost since electric power is cheaper. For example, enterprises from the banana sector are considering changing their power sources from fuels to electricity (El Universo, 2017).
c. The Agreement itself also provide better conditions to increase capital goods, and technology by imports to promote productivity. Indeed, this benefit should be complemented by national efforts to boost national industries, in this case to continue with the strategy of the Productive Matrix Transformation.
d. Nonetheless, it is important to mention that the Government has had difficulties to finance the projects planned under this strategy. Therefore, the Ecuador should promote the involvement of the private sector, by local and foreign investment to fulfill the final objectives of the strategy.

[15] National Strategy focused in the transformation of the pattern of specialization from a primary export and extractivist economy to one that privileges diversified, eco-efficient production with greater added value, as well as services based on the knowledge economy and biodiversity (SENPLADES, 2012).

Public Private Partnerships (PPP) could be an option for the Ecuadorian Government to keep improving national infrastructure to increase national productivity and competitiveness,

e. Moreover, to be more competitive, Ecuadorian Government should consider administrative and tax reduction for SMEs and other enterprises committed to the increase exports to the EU. In the second semester 2017 as economic measures, the Ecuadorian President announce a tax reduction to the SMEs, and to the exporters, taxes refund if they maintain the current levels of employment. This type of benefits to encourage the foreign trade (mostly exports) should be considered in broader and permanent programs.

3. SMEs productivity and capacity enhancement

As previously mentioned, generally Ecuador exports are concentrated in a few enterprises. This issue represents a weakness for the country and a possible cause of income gap increase in the future. Therefore, the Government and the private sector must increase the productive and technical capacities of SMEs.

a. Capacity building is a basic requirement for Ecuador to increase exports of the SMEs. Therefore, the country needs to strengthen the productivity of SMEs, by financial and institutional support to meet volumes, standards and other measures demanded by the EU.
b. The EU Delegation to Ecuador has the program Support to the Trade Sector which consist of €10 million and is implemented by the Ministry of Foreign Trade, ProEcuador, Fedexpor (Ecuadorian Exporters Federation), and CORPEI (Export and Investment Corporation) public and private institutions. This program is used to provide technical

assistance and capacitation to the SMEs to allow them start exporting to the EU or increase its export. The programs should try to enhance productive and technical capacities of the SMEs so actual results are obtained and a strong export culture is developed.

c. EU also has an investment program ALINVEST operating in the country. This program should mostly benefits SMEs to increase the number of producers exporting to the EU.
d. SMEs capacitation should consider topics such as: requirements to export to the EU, regulatory export framework, efficient operating expenses and setting competitive prices, procedures for the inflows and outflows of foreign currency, taxes and tariffs issues.
e. Additional to financial cooperation and technical assistance, Ecuador needs to focus on technology transfer from the EU to enhance the productive capacity of SMEs, diversification and the increase of value-added products.
f. National Institutions should also consider the enforcement of SMEs' production chains and innovation to better respond to the increasing demand of the UE.

4. National and regional partnerships

Colombia and Peru have had different approaches when it comes to trade policy. Nonetheless, all three countries are now Parties of the Agreement with the EU. This fact has generated more competition for a share of the EU market. However, besides the competition partnerships are being proposed to better profit from the Agreement.

a. The Multiparty Agreement allows "cumulation of origin" of the goods exported to the EU. Therefore Colombia, Peru and Ecuador could

combine their productive capacities to export to the EU. This issue is relevant since many non-traditional goods have low productions volumes, so by combining quantities of each Party, the EU demand could be covered.

b. Moreover, according to the Agreement, quotas have been stablished for certain goods to the EU market, and according to the results, only a few lines have met this quota, so the use of "cumulation of origin" will help the Andean countries to better profit from these preferences.
c. Additionally, it is argued that Ecuador has a competitive advantage in the European market regarding the dollar as stable currency compared to Colombia's and Peru's currencies, and it is argued that Ecuadorian exporters are more trustworthy, these issues become a preference for some partners in the EU. Therefore, Ecuador exports that do not reach volumes can be supported by the productions of the other Andean countries (El Universo, 2017).
d. Regarding national partnerships, Ecuador is promoting the creation of export consortiums of SMEs. ProEcuador is supporting the promotion of export of these consortiums opening direct channels with supermarkets in the EU. These consortiums represent a good opportunity for SMEs that could be extended to the other Andean countries of the Agreement.

5. Differentiations of products

Comparing social policies between the Colombia, Peru and Ecuador, the last has a strong legislation regarding labor rights the protection of the environment. Considering this issue, the provision of Trade and Sustainable development for Ecuador may be easier to adopt. In fact, Ecuador can benefit from this situation

to create differential characteristics from the country's exports to make them more competitive in the EU market.

a. To become more competitive and differentiated in the EU market, Ecuador should promote the procurement of national and international certifications for its products lines. Certifications such as sustainable or organic production, CSR or assurances relating to child labour, chemical usage and other products used in the production process can be a plus for Ecuadorian exports for a better negotiation capacity.
b. The development model of Ecuador, which is highly focus in the social welfare (strong social programs, labor rights, decent wage) and protection of the rights of nature (included in the Constitution) could be exploited as differential characteristic in the productive process of the country, to respond to the values promoted by the EU and cover a market niche that values these practices.

6. Services exports enhancement

As presented in the results, Andean countries have not exploited the opportunities that the Agreement presents to the service sector.

a. Ecuador should consider that the EU has totally liberalized the service sector, so the promotion of this sector is an imperative to further benefit from this preferential access, considering the high demand of the EU.
b. The country should enhance business opportunities offered by the country: in tourism, software, and others. Service export promotion must be consistent to the demand of the EU.

7. Institutional enforcement

The Agreement with the EU allows tariff stability, eliminating the disadvantage Ecuador faced with Colombia, Peru and other countries in the region. Nonetheless, to fully enjoy the benefits of the Agreement, Ecuador needs to develop stronger and functional institutions to facilitate trade, increase the confidence to increase FDI inflows and guarantee fast and efficient exporting and importing processes. To do so, Ecuador can consider:

a. Legal system also has to be improved to generate better conditions to the investors and guarantee more stability for trade regarding the protection of rights and property. As the WTO stated in the Policy Report for Ecuador, "a stable, predictable, and transparent trade and trade related legal and institutional framework could be the key to success." (WTO, 2012)
b. Use the benefits of the Agreement regarding cooperation's and technical assistance from the EU to improve national exporting and importing procedures, under the provisions on Trade Facilitation.
c. Ecuador has made important efforts to speed up the exporting process by the creation and utilization of ECUAPASS, a IT tool to reduce the paperwork and safe time and money to the exporters. This is an important progress, but still Ecuador needs to reduce the process to encourage the participation of more enterprises and SMEs to export.

In general terms the Agreement represent to Ecuador an advantage and a challenge as well. If properly applying complementary measures to enhance national competitiveness and productivity, and supporting sensitive sectors, the country could better profit from the opportunities the Agreement have to offer. Considering the results for Colombia, Peru and the initial results for Ecuador, the above-mentioned policy recommendations can help to get better and

positive effects and impacts of the Multiparty Trade Agreement implementation for Ecuador, and better prepare for the future trade agreements pursued under the current policy of trade openness.

CONCLUSION

According to the analysis of the trade relations between Ecuador and the EU and according to the results of the Multiparty Trade Agreement implementation, it can be argued that the strategy of trade liberalization by the negotiation of trade agreements can be of great benefit to increase exports and exportable markets, to establish new productive and commercial alliances, to have more customers and more consumers, to create better conditions to attract investment and to provide better prices to national consumer. In general terms, trade openness by the promotion of trade agreements is a good option to boost Ecuadorian economy. Nonetheless, this strategy can also bring winners and losers for the country if it does not apply complementary and proper measures to balance the negative effects of trade agreements.

Regarding the case study of the Multiparty Trade Agreement, as a tool for trade liberalization, it is of significant relevance for Ecuador since it is the first so called FTA for the country with its second most important trade partner, representing a milestone of the Ecuadorian strategy of trade liberalization and the political and economic relations with the EU. Moreover, it is important to mention that in general terms the Multiparty Trade Agreement for Ecuador, Colombia and Peru is very similar regarding rights and obligations. Therefore, implications from the specific particularities negotiated for Ecuador are not widely expected. Despite the historical, political and economic conditions that altered the commercial relations between Ecuador and the EU and led to the accession to the Multiparty Trade Agreement. Ecuador importantly relies on the trade relations with the EU, so now that the Agreement is a reality for the country, every effort should be directed to properly profit the preferences

Ecuador gained to this huge market. In the scenario of not having tariff preferences derived from the GSP+ nor the Multiparty Agreement, it has been estimated that a subsidy of at least USD 332 million a year would have been required to equate conditions of competition and an estimate of approximately USD 1,240 million would have been required by 2020 (ECLAC, 2016).

The present study considered for the analysis the countries of the Andean Community part of the Multiparty Trade Agreement with the EU: Ecuador, Colombia and Peru to measure the effects of the Agreement in the balance of trade of the Parties with UE, the effects for exports - imports composition and trends and the effects in other fields covered by the Trade Agreement. The analysis presented above shows that trade profiles have not been altered substantially, giving little impact of the Agreement implementation until now. In fact, considering the comparative review and evaluation applied to the results of the three-year implementation of the Multiparty Agreement for Colombia and Peru, and the initial results for Ecuador, it can be argued that the trade evolution with the EU is not as positive as expected when the Agreement was signed. Exports have decreased for the Andean countries, but imports from the EU are increasing in the cases of Colombia and Ecuador, an issue of concern. Regarding diversification of exports and export destinations, as one of the main goals for all three countries, this is still in process. For all three countries until today, economic dependence on commodities like oil and other minerals incomes is still evident. The Agreement has promoted an increase in agricultural and agro-industrial goods exports of the Andean countries, but these are still primary goods or low value-added good. Even if Colombia and Peru are far ahead regarding the implementation of the Agreement, according to the current trend it can be argued the Agreement itself will not promote

diversification, but each Party should apply complementary measures to boost exports diversification. Indeed, these and other sectors need to be strengthened to properly profit from the preferential access to the EU market and prevent a possible re-primarization of the economy.

Ecuador has to make a big effort to maintain a positive balance of trade with the EU since Colombia and Peru trade with this bloc has evolved in negative terms. For these countries the main issue was the high concentration of exports in a few products (mostly mining related primary goods). Therefore, any price drop in international markets will produce big impacts in the balance of trade as seen before. Consequently, the proposed policy recommendations are a possible strategy to obtain better results for the Agreement implementation, improve trade relations and reduce the possible negative outcomes. Additionally, as it is promoted in the Agreement, sustainable development should go hand by hand with trade promotion. Otherwise, labor and environmental conditions will be affected in a region where inequality and poverty are already a big issue. Until now, the Agreement implementation has shown in Colombia and Peru some negative impacts for small farmers, flexibility of environmental regulations to facilitate mining extraction, reduction of labor standards to increase agricultural exports and a reduced civil society participation. Even if sustainable development is supported by national legislation, it is important for Ecuador to have a good supervision and commitment with this Agreement provision to prevent future negative impacts.

It is expected that in the medium and long term, the Agreement will contribute to the economic growth of the member Parties. However, the present results cannot really tell of the impacts of the economic growth, employment and other macroeconomic variables. Once fully implemented the Agreement with the EU

and when sufficient information is available, it is recommended to pursue further studies to verify the impacts of the trade policy and the Multiparty Trade Agreement in the macro and micro economy. Detailed studies can be made to measure what has been gained and what has been lost with the Agreement, and then establish a far-reaching strategy to improve trade relations with the European Union and other trade partners based on a complementary relationship.

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국문초록

에콰도르 무역 개방 전략 분석

에콰도르 - EU, 콜롬비아, 페루 다자간 무역 협정 사례 연구

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지난 10 년 이래로 에콰도르 무역 정책은 내생적 발전에 중점을 두어 국가 산업을 장려하고 무역 수지를 향상시키는 보호주의적 조치들을 촉진시켰다. 이러한 상황으로 인해 대외 부문은 오랫동안 방치되어 있었고 결과적으로 국제 시장에서 에콰도르의 점유율 상실 및 주변국들과 비교할 때 경쟁력 하락을 초래했다. 결과적으로 에콰도르는 대외 교역 증대의 필요성을 깨닫게 되었다. 이에 따라 에콰도르 정부는 지역 및 세계와의 무역 협상을 통해 국제 경제로 나아가기 위한 무역 개방 전략을 추구했다. 이 측면에서 에콰도르는 보호 무역주의 정책을 개방 시장 정책으로 전환하고, 무역 패턴을 바꾸어 국제 무역에서의 참여와 경쟁력을 높였다.

이러한 상항에 따라 2016 년 에콰도르는 유럽 연합 (EU), 콜롬비아 및 페루와의 다자 무역 협정을 체결했다. 이 협정은 현재까지 에콰도르가 체결한 협정 중 가장 중대한 협정이라는 점에서 에콰도르 무역 개방 전략의 이정표라 할 수 있다. 더욱이, 에콰도르의 생산 부문을 촉진하고 수출을 증진시킬 수 있는 중요한 기회다.

본 연구는 2013 년부터 협약을 이행하고 있는 콜롬비아 및 페루와의 다자 협정의 효과를 분석한다. 또한, EU 와의 무역 균형, 다자간 무역의 수출입 동향 및 구성의 결과를 기반으로 한다. 연구 결과를 고려할 때 무역 협정 이행과 관련하여 그 효과를 극대화하고 부정적인 영향을 예방할 수 있는 정책 권고안을 제안하는 것이 가능했다.

주요어: 다자간 무역 협정, 유럽 연합, 콜롬비아, 페루, 에콰도르, 시행 전략.

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