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Note: This report is subject to restricted circulation and press embargo until the end of the first session of the meeting of the Trade Policy Review Body on Ecuador.

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1 MACROECONOMIC ENVIRONMENT AND ECONOMIC POLICY

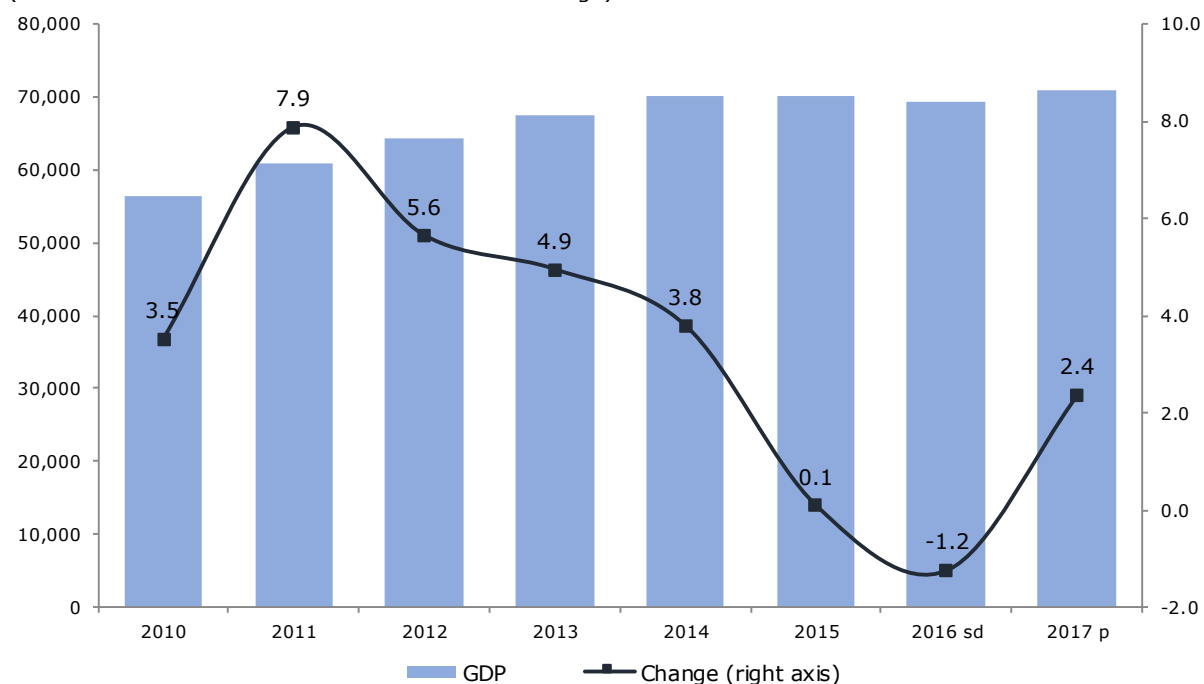
1.1 Introduction

1.1.1 Economic growth

1.1. Once the effects of the international crisis of 2008-2009 had begun to subside, Ecuador's economy entered a period of variable growth. The average annual change in its gross domestic product (GDP) during the period 2010-2014 was 5.2%, higher than the average for Latin America during the same period (3.5% according to ECLAC data). In nominal terms, the economy was worth USD 101,726 million in 2014.

Chart 1.1 Trend in Ecuador's GDP

(Millions of 2007 US dollars and annual rates of change)



Source: Central Bank of Ecuador.

1.2. During those years, the benefits of high oil prices, efficient tax administration and significant flows of external financing channelled into the public sector provided a certain amount of fiscal policy space for spending and public investment, and emblematic projects were developed in the electricity, transport and oil sectors.¹ These investments aimed to pave the way for structural transformation, boosting systemic competitiveness by building infrastructure conducive to connectivity (roads, ports, airports) as a basis for the development of production.

1.3. Added to this was a supply of electricity chiefly from renewable sources, bringing down production costs in the manufacturing sector. A road network was constructed that not only provided easy access for producers and exporters to domestic and foreign markets, but also introduced a means of harnessing the productive potential in the different territories so that emphasis could be placed on overcoming the dependency of exports on primary products and, in keeping with the constitutional framework, introducing a dynamic and balanced relationship in society to ensure the development of the conditions needed to bring about "Good Living" based on interaction among the public, the private, and the popular and solidarity economic segments.

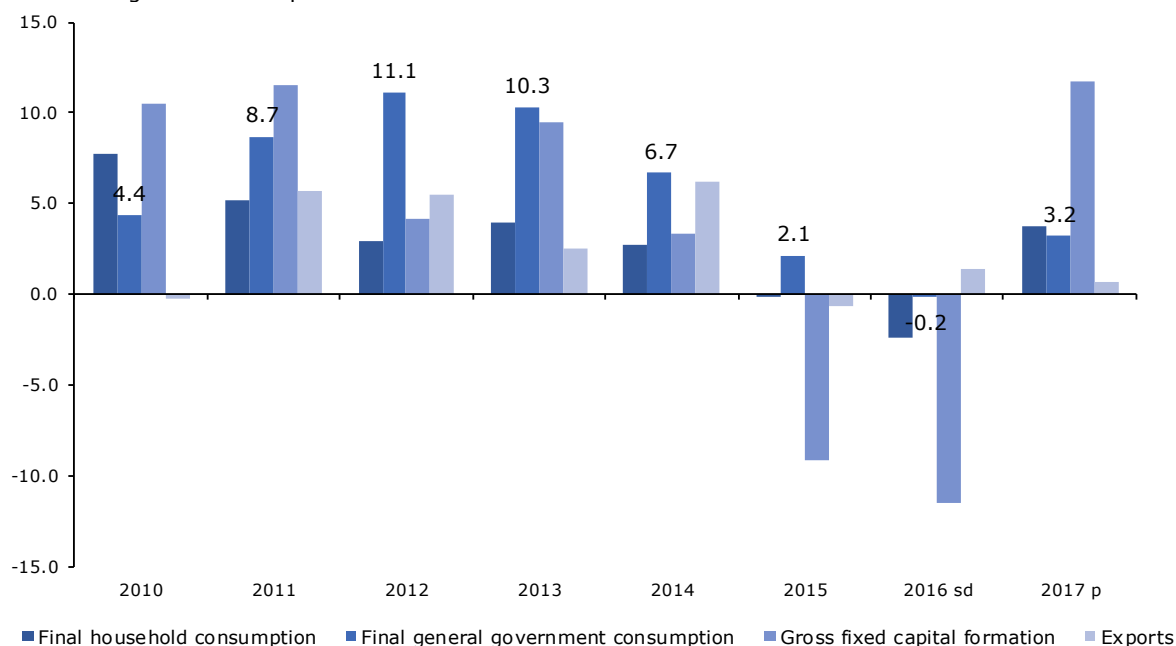
1.4. During the period under review, final household consumption accounted for approximately two thirds of GDP, while the share of final government consumption stood at about 13.6%. What

¹ While during the period 2000-2005, non-oil revenue accounted for an average of 16% of GDP, during the period 2012-2017 the figure exceeded 20%. In 2015, the share was 26%.

kept the momentum going until 2014, however, was gross fixed capital formation (or investment), chiefly through State-funded programmes. While the share of public investment in total investment was 27% during the period 2000-2005, during the period 2008-2016 it reached an average of 47%, making it possible to provide the infrastructure needed for the comprehensive development of production. Moreover, the figure continued to increase by an average of more than 10% per year between 2010 and 2014 and became the real driver of the economy, accompanied, as can be seen in the chart below, by a similar trend in final general government consumption. The public sector invested on average USD 12 billion per year during the period 2010-2015, broken down as follows: social and human development (37%); production and strategic sectors (35%); security and justice (24%); and heritage and economic policy (4%).²

Chart 1.2 Aggregate demand: determinants of growth

Annual change at constant prices



Source: Central Bank of Ecuador.

1.5. Among the different productive sectors of the economy, construction, with its various linkages to manufacturing, was one of the highest growth sectors, together with electricity supply, aquaculture, and financial services, all non-oil sectors. Meanwhile, poverty decreased from 36% in 2009 to 22.5% in 2014. Similarly, with income in the poorest segments of the population growing more rapidly than the average income, the Gini index of inequality fell from 0.50 to 0.47.

1.6. Starting in 2015, economic development changed course and the growth rate slowed to 0.1%, falling to -1.2% in 2016. This was the result of a number of factors that impacted the Ecuadorian economy: (i) the appreciation of the dollar at a time when the neighbouring countries, such as Peru and Colombia, were depreciating their currencies; (ii) the sharp fall in the price of crude³; (iii) the decline in investment for both years (6.2% in 2015 and 8.9% in 2016); (iv) the sharp fall in export revenue and legal quota payments; and (iv) the significant impact of the earthquake of April 2016 and the resulting losses.⁴

1.7. Between 2013 and 2016, urban unemployment increased from 4.9% to 6.5%, while urban underemployment increased from 10.1% to 18.8%. During the same period, poverty and the Gini index of inequality remained relatively stable.

² SENPLADES, Accountability Report 2015.

³ While in 2013 and 2014, Ecuador exported its crude at USD 94.4 and USD 82.9 per barrel respectively, in 2015 the price fell to USD 45.9 per barrel, and in 2016, to USD 30.7.

⁴ According to SENPLADES, the earthquake cost an estimated USD 3,344 million.

1.8. In order to counteract these shocks and in the absence of a local currency, in 2016-2017, the Government had to curb the already high level of public investment and contain the increase in current expenditure. The authorities also mobilized various external and domestic sources of financing, and made a number of cuts in spending which had their impact on economic growth. At the same time, in order to avoid an external sector imbalance, a number of temporary measures were introduced between March 2015 and the first half of 2017, and a balance-of-payments safeguard, approved by the World Trade Organization and the Andean Community, was applied. These policies helped to moderate the effects of the external shock and to finance reconstruction following the earthquake.

1.9. Indeed, the sector that suffered the most in 2016 was construction, with a fall in gross value added of 5.8%. At the same time, partly as a result of the introduction of a balance-of-payments safeguard, the gross value added of trade fell by 4%.

1.10. Historically, the Ecuadorian economy has been highly vulnerable to internal and external shocks such as the appreciation of the dollar, currency movements in the neighbouring countries and among its partners, and fluctuations in the price of its exports.

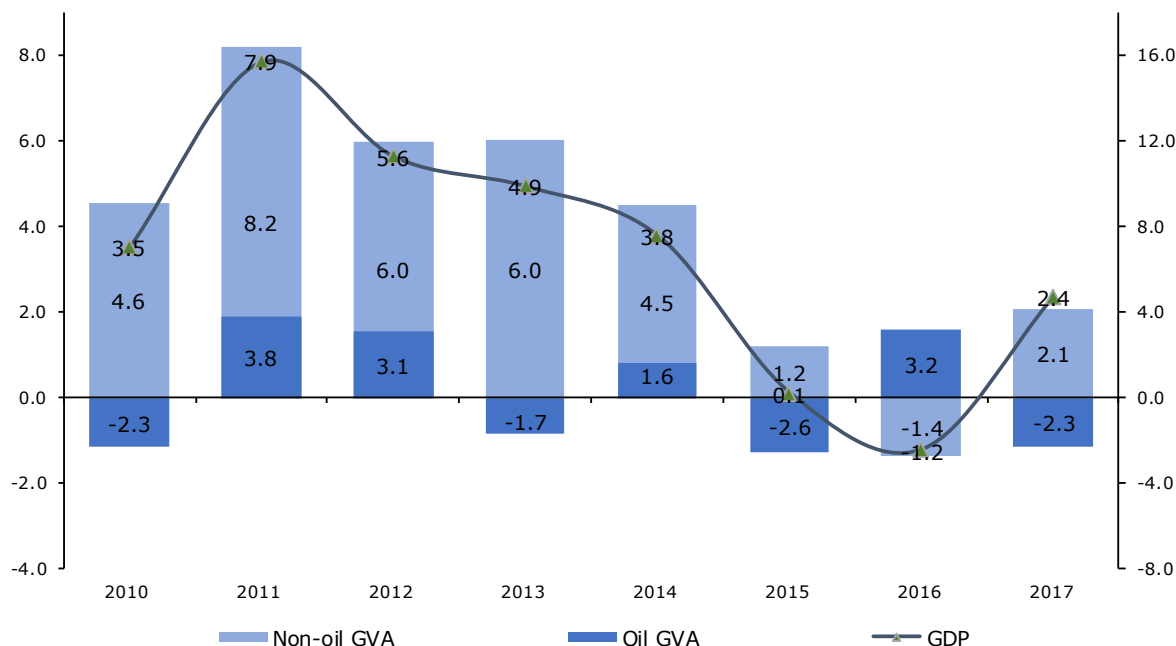
1.11. With the advent of the new Government in May 2017, the return to a VAT rate of 12% and the termination of the balance-of-payments safeguard, a Government plan calling for support to the construction, manufacturing and mining industries as the pillars of economic growth gave rise to positive expectations. The result was an environment of confidence in the new authorities which was reflected in the optimism of the stakeholders, a growth in loans in the different sectors, and increased imports. This, in its turn, contributed to an increase in final household consumption. In 2017, GDP recovered after two years in recession. In current terms, GDP reached USD 104,296 million, increasing by 2.4% in constant terms, driven chiefly by a year-on-year growth of 5.3% in investment (gross fixed capital formation) and 3.7% in private sector consumption. The vigorous growth in final household consumption was linked to the increased flow of remittances, the maintenance of wages in real terms, the increase in ordinary consumer loans of 64%, in entrepreneurial production financing of 88% and in corporate production financing of 94%, as well as greater buoyancy in the different sectors of the economy. Moreover, since 2008 nominal wages increased at a higher rate than inflation, contributing to an improvement in the population's purchasing power.

1.12. In 2017, investment (GFCF) increased by 5.3% compared to 2016, a performance directly linked to the increase in imports of machinery and equipment, which account for approximately 24.4% of total imports. The share of public GFCF in the total reached 45.4% in 2016 (USD 11,408 million), compared to 57.6% in 2014 (USD 15,953 million) and 50.6% in 2015 (USD 13,344 million).

1.13. Meanwhile, in 2017 non-oil GVA grew by 2.1% thanks to the recovery of most economic activities, while oil GVA fell by 2.3%, chiefly owing to a decrease in crude oil extraction, which fell to 193.9 million barrels in 2017, 3.4% lower than in 2016. The fall in production in 2017 was mainly due to the quotas established in the agreement signed with OPEC.

Chart 1.3 Oil and non-oil GVA

2007 = 100, annual rates of change



Source: Central Bank of Ecuador.

1.14. The performance of the "aquaculture and shrimp-fishing" sector was remarkable in that, in spite of the ravages caused by the 2016 earthquake, which affected the Manabí and Esmeraldas production areas, and the negative impact of El Niño on the coastal areas, it recorded positive results, growing by 15.9% in 2017. The annual rate of change in GVA for electricity and water supply reached 9.6% with the entry into operation of Coca Codo Sinclair hydroelectric plant, which increased its production to 99%, from 2,972 million kWh in 2016 to 5,914 million kWh, in 2017.⁵ At the same time, thermal production fell by 49% annually, so that there was a decrease in the consumption of petroleum products, of which Ecuador is a net importer.

1.15. One sector which has been particularly dynamic throughout 2017 was financial services, with an annual growth rate of 6.3%. Credit operations in the private financial sector and the "popular and solidarity" economy rose from USD 22,979 million in 2016 to USD 27,385 million in 2017, i.e. an increase of USD 4,407 million year on year.

1.16. The teaching and social services sector and the health sector were among the most dynamic in 2017, owing to the fact that they were among the Government's strategic priorities as part of its effort to improve the quality of education and public health and expand citizens' rights to those services. Hence the high growth rate in those sectors over the past few years and the steady increase in their share in GDP.

1.17. However, other sectors were less fortunate in their recovery, in particular construction, which recorded an annual decline of 4.4% in 2017. As mentioned earlier, this was due to the decrease in the public investment that had stimulated the sector in previous years.

1.18. The country has achieved considerable economic and social progress over the past decade, resulting in greater investment in infrastructure, improved living conditions for the population and greater equality. Nevertheless, there was an economic slowdown in 2015-2016 owing to the external

⁵ For the past four years, the Ecuadorian Government has been investing heavily in infrastructure for power generation and water supply. Some of this infrastructure entered into operation during 2015 and 2016, enabling Ecuador to increase its water and electricity supply, and even to begin exporting electricity to neighbouring countries such as Peru and Colombia.

shocks and to the fact that the production-export chain was insufficiently diversified, with exports focusing on a handful of products.

1.19. In a context in which public investment could no longer continue to be the driver of growth, the Government felt that it was essential to bring about a systematic improvement in the investment climate, encouraging greater private participation and making it easier for capital and labour to be invested in emerging activities. Thus, one of the national Government's main priorities since the second half of 2017 has been attracting international and domestic investment and creating a stable legal framework that would provide the necessary incentives.

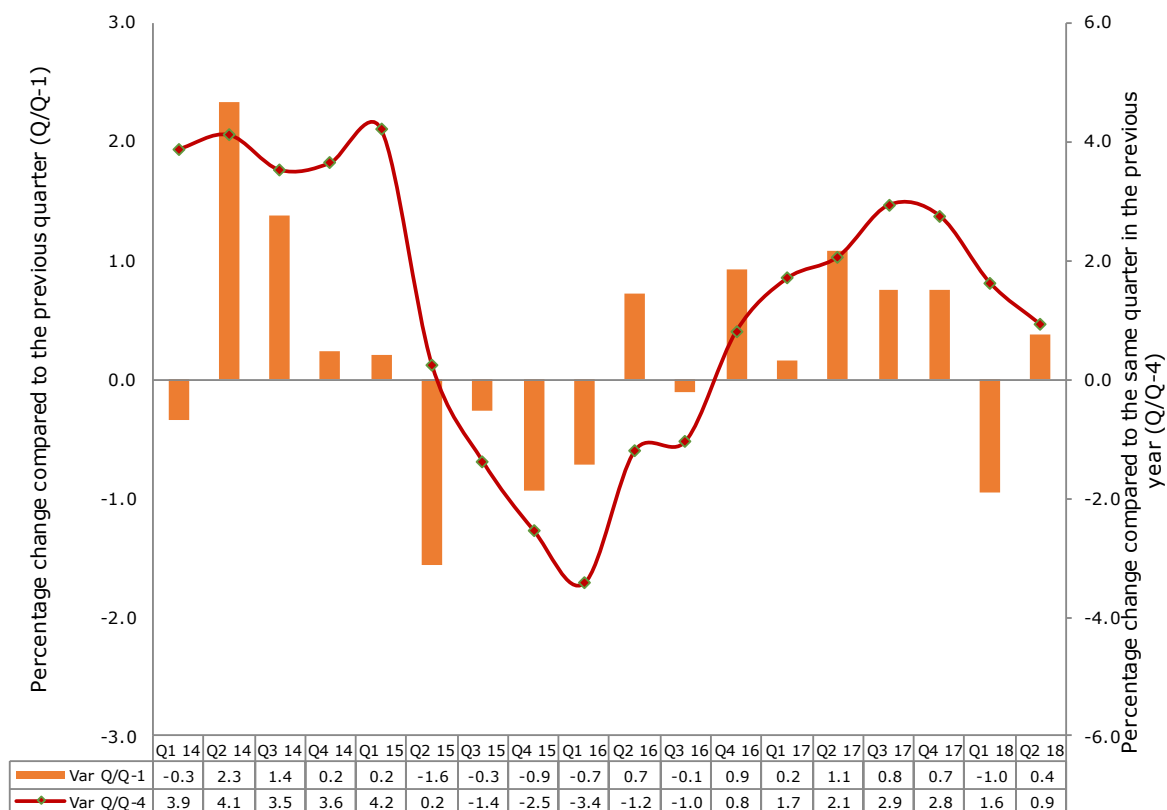
1.20. Greater investment is expected for the period 2018-2021 with the promotion, as from June, of "investment contracts", particularly in the oil, hydrocarbon and mining sectors. In August 2018, the National Assembly approved the draft Organic Law on the Promotion of Production, Attraction of Investment, Generation of Employment and Fiscal Stability and Balance, which rests on three main pillars: remission of interests, penalties and charges; incentives for private investment (tax relief); and benefits for the revival of construction, with a focus on social housing in the country. It is hoped that this will help to attract domestic and foreign investment, or reinvestment, providing support for the private sector which is helping to diversify the Ecuadorian economy, to increase its productivity and to generate quality employment, with a view to promoting development and continuing the fight against poverty.

1.1.2 Economic development in the second quarter of 2018

1.21. From April to June 2018, Ecuador's GDP grew by 0.9% compared to the same period in 2017 (Q/Q-4) and by 0.4% compared to the previous quarter (Q/Q-1). In current values, quarterly GDP reached USD 27,024 million.

Chart 1.4 Gross domestic product (GDP)

2007 = 100, quarterly rates of change

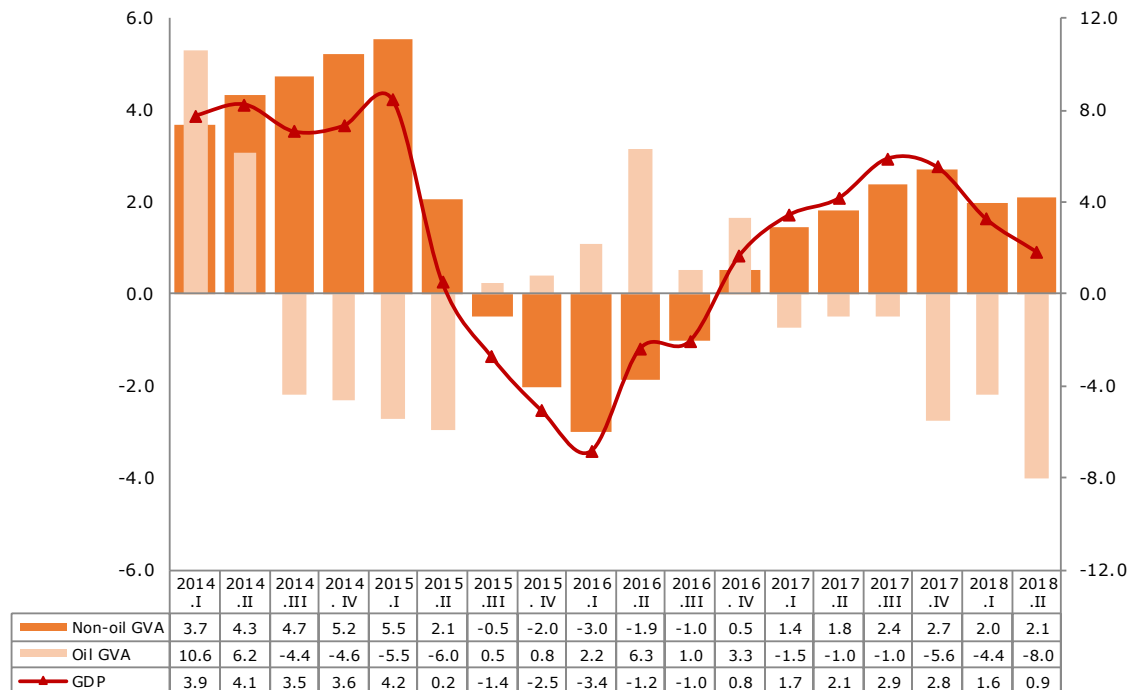


Source: Central Bank of Ecuador.

1.22. The GDP figures for the second quarter of 2018 can be explained chiefly by the performance of the non-oil sector, which recorded a 2.1% growth, while the oil GVA fell by 8% as a result of a decrease in production by Petroamazonas.

Chart 1.5 Oil and non-oil GVA

2007 = 100, year-on-year rates of change (Q/Q-4)



Source: Central Bank of Ecuador.

1.23. The Government's final consumption expenditure grew by 3.9% year on year, while final household consumption grew by 3.3%, gross fixed capital formation (GFCF) by 2.4%, and exports of goods and services by 0.2%. Moreover, imports of goods and services increased by 8.6% compared to the same quarter in the previous year.

1.24. During the second quarter of 2018, **gross fixed capital formation (GFCF)** increased by 2.4% compared to the second quarter of the previous year (Q/Q-4) thanks to investment in machinery and equipment, electrical apparatus and transport equipment, which grew 7%, as well as the 10.2% increase in imports.

1.25. GFCF in the construction sector grew by 1.1% owing to the increase in the number of operations in the private financial sector and the "popular and solidarity economy" targeting social housing, which increased from 741 to 921. At the same time, building loans increased from 3,261 in the second quarter of 2017 to 4,074 in the second quarter of 2018. Similarly, the GFCF for agriculture-related products increased by 1.4%, with forestry production growing by 4.8%.

1.26. **Final household consumption expenditure** rose by 3.3% owing to the increase in the number of ordinary consumption credit transactions, which rose by 31.6%, and priority consumption credit transactions⁶, which rose by 29.1%. Another factor that stimulated household consumption was family remittances which, in the second quarter, increased by 9.8%, reaching a total of USD 767.3 million.

⁶ Credits granted to natural persons for the purchase of goods and services or expenditures that are not related to production and commercial activities or other purchases and expenditures that do not fall within the ordinary consumption category, including inventory credits.

1.27. Meanwhile, real wages increased by 3.7% between the second quarter of 2017 and the second quarter of 2018, which, combined with the decrease in the Consumer Price Index (CPI) of 0.7% during the same period, resulted in an increase in household purchasing power.

1.28. In order to cover the collective services provided to the population free of charge (public administration, defence, internal and external security, etc.) and to individuals (health and education), **final Government consumption expenditure** increased by 3.9% over the second quarter of 2017 (Q/Q-4). There has been an increase in expenditure both on wages and on the purchase of goods and services.

1.29. Six-monthly information shows that Ecuador's GDP grew by 1.3% in the first half of 2018 compared to the first half of 2017.

1.1.3 Economic policy

1.30. Ecuador's economy has been dollarized since 2000 and is highly dependent on oil income, making it more vulnerable to external crises. Faced with the need for a constant flow of foreign currency and for measures to mitigate the liquidity risk to which the country is exposed, Ecuador's trade and fiscal policies have focused on the sustainability of dollarization by optimizing the country's balance of payments, promoting foreign direct investment and maintaining a sustainable trade balance deficit.

1.31. In this context, the growth achieved between 2012 and 2017 was overshadowed by the critical economic situation of 2016⁷, during which the economy contracted by 1.2%, subsequently recovering with a 2.4% growth in 2017.

1.32. For the Ecuadorian Government, it was essential to replace the chiefly public-sector-driven economic model applied during that period with a model based on productive sector investment, in which dollarization would be sustained chiefly by agricultural exports, tourism, large-scale mining, oil production and the attraction of foreign investment in general.

1.33. Against this backdrop, a plan was developed at the beginning of 2018 known as the 2018-2021 Prosperity Plan, which aims to establish a solid institutional framework that will boost productive capital and produce a dynamic and diverse economy, providing employment and development opportunities and contributing to the well-being of the population.

1.34. Although the country did grow during the review period, this growth was accompanied by a high level of debt which led to imbalances in the country's fiscal accounts. This is why Ecuador is currently turning towards measures reflecting fiscal prudence and responsibility to guarantee its growth and prosperity.

1.35. As part of the fiscal sustainability component, the Prosperity Plan seeks to reduce the deficit by USD 1.3 billion per year, to achieve primary fiscal balance and an overall deficit of less than 1% of GDP by 2021.

1.36. As regards expenditure, a State optimization plan has been implemented which provides for the elimination or merging of government entities (ministries, secretariats, institutes and agencies). Thought is also being given to liquidating or selling certain state-owned enterprises, and reducing current expenditures (travel, security, purchase of vehicles, publications, etc.).

1.37. As regards investment policy, between 2012 and 2017 Ecuador created a legal framework comprising laws and regulations governing budgetary, tax and tariff measures as well as measures to promote production. This legislation was strengthened by the adoption, in August 2018, of the so-called "Organic Law on the Promotion of Production, Attraction of Investment, Generation of Employment, and Fiscal Stability and Balance", or the "Law on the Promotion of Production".

⁷ In 2016, a number of factors combined to undermine economic performance: there was a fall in the price of raw materials, including oil; the Ecuadorian oil basket price fell to USD 21.58 per barrel (January average); the dollar appreciated; and there was an earthquake on 16 April in the provinces of Esmeraldas and Manabí.

1.38. The Law on the Promotion of Production seeks to boost competitiveness, restore the fiscal balance and reduce the debt, and above all, to make investment more attractive. For example, all new investments are exempted from income tax for 8 to 20 years, depending on the location of the investment, and the advance payment of income tax and windfall tax has been abolished. This will help to relieve the burden on enterprise and production, fostering competitiveness, investment and employment.

1.39. At the same time, efforts will be made to sustain public investment in infrastructure and other development projects thanks to private investment in the context of public-private partnerships (PPPs). Similarly, changes are being introduced to the legal and institutional framework so that PPPs can contribute to optimizing the development of infrastructure projects with repayment capacity and private investment.

1.40. On the social policy front, Ecuador has maintained its commitment to enhance social protection by assigning additional resources to social programmes such as the so-called "Human Development Bond", which will help to narrow the poverty and extreme poverty gap.

1.41. Turning to trade policy, 1 January 2017 saw the entry into force of the Multipartite Trade Agreement with the European Union which is expected to boost GDP by 0.1% annually, consumption by 0.15% and investment by 0.13%, not to mention the knock-on effect on employment and income for the population.

1.42. The current strategy for international integration calls for an opening up of the country's trade, which has begun with the conclusion of a trade agreement with the European Free Trade Association (EFTA), a request by Ecuador to become an associate state of the Pacific Alliance, a trade agreement with India, and various other trade agreement negotiations that are on the country's trade agenda.

1.2 Legislative framework

1.2.1 2008 Constitution of the Republic

1.43. Ecuador is a constitutional State of laws and justice that is social, democratic, sovereign, independent, singular, intercultural, plurinational and secular. It is organized as a Republic and is governed in a decentralized manner. It is made up of five branches: the Executive branch, headed by the President of the Republic; the Legislative branch, headed by the National Assembly; the Judicial branch, made up of the Council of the Judiciary, the National Court of Justice, the provincial courts, tribunals and magistrates' courts; the Electoral Branch, made up of the National Electoral Council and the Electoral Court; and the Transparency and Social Control branch, made up of the Council for Public Participation and Social Control, the Office of Attorney for the Defense of the People, the Comptroller General, and the Superintendencies.

1.44. The Constitution is the supreme law for the application of regulations, followed by international treaties and conventions. Treaties and other international instruments on human rights are applied in conformity with the Pro Homine principle as well as the principles of non-restriction of rights, direct applicability and open clause set forth in the Constitution. The rights enshrined in the Constitution are for immediate observance and enforcement. The judges, administrative authorities and public servants directly apply the provisions of the Constitution and those set forth in international human rights instruments, as long as the latter are more favourable than those of the Constitution.⁸

1.45. The hierarchical order continues with the organic laws; the regular laws; regional regulations and district ordinances; decrees and regulations; ordinances; agreements and resolutions; and other actions and decisions taken by the public authorities. In the event of any conflict between regulations from different hierarchical levels, the Constitutional Court, judges, administrative authorities and public servants, it is settled by applying the higher ranking rule.

⁸ Articles 417 and 426 of the Constitution.

1.46. In 2008, in order to give effect to the rights established in the Constitution, the economic system was defined as socially oriented and mutually supportive (social and solidarity economy), the idea being to establish a dynamic, balanced and harmonious relationship between society, the State, the market and nature. Thus, the Ecuadorian economic model advocates the creation of opportunities by bringing together the public sector, the private sector, and the community in implementing the country's economic, monetary, credit and financial, and fiscal and trade policies.

1.47. The central government has exclusive jurisdiction over economic, tax, customs and tariff policies, fiscal and monetary policies, and foreign trade and debt⁹, and is responsible for promoting environmentally responsible exports that create more employment and added value, in particular exports from small and medium-sized producers.

1.48. Ecuador's economic policy ensures proper distribution of the country's income and wealth, encouraging systemic productivity and competitiveness, the accumulation of scientific and technical knowledge, and strategic integration into the world economy through a fair exchange of goods and services.

1.49. The country's fiscal policy objectives are the financing of services, investment and public goods, the redistribution of income and the creation of incentives for investment in the different sectors of the economy and for the production of goods and services that are socially desirable and environmentally acceptable.

1.50. Finally, under the Constitution, trade policy aims to develop, strengthen and give impetus to domestic markets on the basis of the strategic objectives set out in the National Development Plan (PND).

1.2.2 National Development Plan 2017-2021 "A Lifetime"

1.51. The National Development Plan is the instrument to which public policies, programmes, and projects, the programming and execution of the State budget, and the investment and allocation of public resources must adhere. The Plan is mandatory for the public sector.

1.52. The National Development Plan 2017-2021 "A Lifetime" was drawn up on the basis of the government programme known as "A Programme for Society, Education, Production and Decent Work". In fact, the Plan was designed to implement the proposals put forward by the Government in this connection, which notably include a number of emblematic projects such as the mentioned plan, "A Lifetime". The policies that shaped the Plan are national, and are the fruit of a comprehensive social and State management rationale which acknowledges the joint responsibility of different functions of the State, levels of government, society and various economic operators in meeting the country's objectives and targets.

1.53. The National Development Plan goes hand in hand with the national territorial strategy that rests on a methodological approach made up of five components: biophysical/socio-cultural; economic/productive; human settlement and the built environment; and political/institutional.

1.54. The PND rests on three pillars: (i) rights for all throughout their lifetime; (ii) the economy at the service of society; and (iii) more society and better State. Each of these pillars, in its turn, comprises objectives and territorial guidelines, as described below.

⁹ Article 261 of the Constitution.

Table 1.1 National Development Plan "A Lifetime" 2017-2021

Pillar	Objectives	Territorial guidelines	Implementing arrangements
Rights for all throughout their lifetime.	<ul style="list-style-type: none"> - Guarantee a decent life with equal opportunities for all. - Reaffirm interculturality and plurinationality with a greater focus on identities. - Guarantee the rights of current and future generations to nature. 	Territorial cohesion with environmental sustainability and risk management.	<ul style="list-style-type: none"> - Intersectoral coordination agendas. - Sectoral and institutional plans. - National agendas for equality. - Social coordination agendas. - Land development and management plans. - Special plans for national projects of a strategic nature.
Economics at the service of society.	<ul style="list-style-type: none"> - Strengthen the sustainability of the economic, social and solidarity system and strengthen dollarization. - Stimulate productivity and competitiveness for sustainable economic growth through redistribution and mutual support. - Develop production capacity and an environment conducive to achieving food sovereignty and quality of rural life. 	Equitable access to infrastructure and knowledge.	
More society, better State.	<ul style="list-style-type: none"> - Foster a participatory society with the State remaining at the service of citizens. - Promote transparency and co-responsibility for a new system of social ethics. - Guarantee sovereignty and peace, and position the country strategically in the region and in the world. 	Territorial management.	<ul style="list-style-type: none"> - Differentiated territorial plans. - Border plans. - Land information system. - Programmes and projects with a territorial impact. - Follow-up and assessment.

Source: National Planning and Development Secretariat (SENPLADES), National Development Plan 2017-2021.

1.55. Of the PND's different pillars, one targets trade, namely pillar 2, "Economics at the service of society", which is based on the premise that economics should serve society through economic, monetary, exchange rate, credit and financial, and fiscal and trade policies. Each one of the objectives under pillar 2 in the table above is accompanied by specific policies and targets.

Table 1.2 Pillar 2 Economics at the service of society

Objective	Main policies	Main targets
Strengthen the sustainability of the economic, social and solidarity system and support dollarization.	<ul style="list-style-type: none"> - Channel economic resources into the production sector, promoting alternative sources of financing and long-term investment, with coordination between the State bank, the private financial sector and the popular and solidarity financial sector. - Strengthen the dollarization system, seeking to boost net foreign exchange earnings and to strengthen the non-oil exportable supply and the net positive flow of public financing, while attracting foreign direct investment to guarantee balance-of-payments sustainability. - Stimulate long-term domestic private and foreign investment that will contribute to job creation and technology transfer. 	<ul style="list-style-type: none"> - Reduce the non-financial public sector deficit by at least 0.41% by 2021. - Increase the trade balance-to-GDP ratio from 1.26% to 1.65% by 2021. - Increase the ratio of the total amount of loan transactions in the commercial and production credit branches of the national financial sector to GDP from 12.1% to 15.2% by 2021.

Objective	Main policies	Main targets
Stimulate productivity and competitiveness for sustainable economic growth through redistribution and mutual support.	<ul style="list-style-type: none"> - Increase productivity and the generation of value added, creating differentiated incentive schemes for the production sector with a view to satisfying domestic demand and encouraging strategic diversification of the exportable supply. - Promote research, education, training, development and technology transfer, innovation and entrepreneurship, and protection of intellectual property with a view to contributing to the change in the production matrix by establishing a link between the public sector, industry and the universities. - Guarantee an efficient, steady and safe supply of quality energy from diversified, efficient, sustainable and sovereign sources as an essential component of productive and social transformation. 	<ul style="list-style-type: none"> - Increase electrical power generation from renewable energy sources from 68.8% to 90% by 2021. - Increase the Information and Communication Technology Development Index from 4.6 to 5.6 by 2021. - Increase the adequate employment rate from 41.2% to 47.9% by 2021. - Increase the ratio of direct investment in the production sector to non-oil GDP, in conditions that guarantee the inflow of foreign exchange, clean production processes, technology transfer and job creation by 2021. - Improve the National Productivity Index by 2021.
Develop production capacity in an environment conducive to achieving food sovereignty and quality of rural life.	<ul style="list-style-type: none"> - Promote decent work and employment with emphasis on rural areas, building up production capacity, fighting casualization, and strengthening the State's targeted support while stimulating entrepreneurship. - Strengthen the organization, community development and participation of small-scale and family farms in the food supply markets. - Improve access, in rural areas, to health services, education, safe water, basic sanitation, public safety, social protection and appropriately located quality housing, and promote connectivity and national road construction. 	<ul style="list-style-type: none"> - Increase the adequate employment rate in rural areas from 27.8% to 35.2% by 2021. - Improve the coverage and quality of, and access to health services, justice and integral security, with due regard for cultural and territorial considerations, in rural areas by 2021. - Reduce land consolidation by 2021. - Increase land ownership by 2021. - Reduce the intermediation margin on food products by 2021: improve the Terms of Trade Index.

Source: National Planning and Development Secretariat (SENPLADES), National Development Plan 2017-2021.

1.2.2.1 "Lifetime" Plan

1.56. The plan "A Lifetime" was introduced as part of the first pillar of the PND, "Rights for All for a Lifetime", which reflects Ecuador's social policy committed to promoting inclusiveness, equality, equity and justice leading to the elimination of barriers and the eradication of poverty. The Plan is a recognition that the guarantee of rights must be lifelong with emphasis, priority and focus on every moment of the life cycle. The Plan covers a series of specific programmes to guarantee the comprehensive development of children, to build up the capacity of young people and create better opportunities for them, to ensure the economic and social inclusion of people with disabilities, to guarantee the right to housing for the poorest and most vulnerable populations, to boost the productive capacity of persons receiving the Human Development Bond and the Joaquín Gallegos Lara Bond¹⁰, and to guarantee better living conditions and social integration for the elderly.¹¹

¹⁰ The bond is intended for persons with a disability that meet the eligibility requirements.

¹¹ Report "Rendición de Cuentas" (Accountability Report) by the Technical Secretariat of "A Lifetime": https://www.todaunavida.gob.ec/wp-content/uploads/2018/03/Informe-Rendicio%CC%81n-Cuentas-2017_APROBADO.pdf.

1.57. To implement the Plan, the President of the Republic issued an executive decree creating the "Technical Secretariat for the Lifetime Plan"¹² as a technical body attached to the Office of the President of the Republic and entrusted with ensuring progressive access by persons to their rights throughout their life cycle by creating public policies for social and human development of the population, and executing the Plan in an effective, efficient and transparent manner, targeting groups with basic unmet needs who are at risk.

1.58. The Technical Secretariat was set up as the government body responsible for helping with the formulation of public policy as well as coordinating and implementing the various programmes and missions: the "ternura" mission for children less than five years old; the "joven" initiative for young unemployed persons from 18 to 29 years old; "less poverty, more development" for households suffering from extreme poverty; "a house for all" targeting households with a shortage of living space; "las manuelas" and "las joaquinás", which guarantee comprehensive care and social and economic inclusion of persons with disabilities; and "plan mujer" which targets society in general. These are projects that make it easier for population groups suffering from extreme poverty to satisfy their basic needs.¹³

1.2.3 Institutional changes: Executive Decree 520

1.59. On the basis of the State optimization plan, the Government issued Executive Decree No. 520 of 20 September 2018 initiating the process whereby the Ministry of Foreign Trade and Investment took control, through a merger, of the Ministry of Industries and Productivity and the Institute for the Promotion of Exports and Foreign Investment, becoming the "Ministry of Production, Foreign Trade and Investment".

1.60. Once this takeover merger has been completed, all of the powers, functions, responsibilities, representations and delegations of the Ministry of Industries and Productivity and the Institute for the Promotion of Exports and Foreign Investment provided for in the different laws, decrees, regulations and other legislation in force will be taken over by the Ministry of Production, Foreign Trade and Investment.

1.61. The Decree also provides for the transformation of the Ministry of Aquaculture and Fisheries into the Technical Secretariat of Aquaculture and Fisheries as a technically, operationally and financially autonomous public law entity attached to the Ministry of Production, Foreign Trade and Investment¹⁴ which controls aquaculture and fisheries activities in accordance with the law and other regulations in force. The National Fisheries Institute is attached to the Ministry of Production, Foreign Trade and Investment.¹⁵

¹² By Executive Decree No. 07 of 24 May 2017, the Ministry of Social Development Coordination became the Technical Secretariat of the "Lifetime" Plan, attached to the Office of the President of the Republic.

¹³ Technical Secretariat, "A Lifetime": <https://www.todaunavida.gob.ec/valores-mision-vision>.

¹⁴ Before 16 June 2017, this was known as the "Ministry of Agriculture, Livestock, Aquaculture and Fisheries" to which the "Vice-Ministry of Aquaculture and Fisheries" belong. With Executive Decree No. 6, published in Official Register No. 16, second supplement, of 16 June 2017, the Vice-Ministry was split from the Ministry, creating the "Ministry of Aquaculture and Fisheries" as the entity responsible for managing and executing aquacultural and fisheries policy.

¹⁵ The National Fisheries Institute was created by Executive Decree No. 582 of 5 December 1960, published in Official Register No. 105 of 5 January 1961, for the purpose of research and the promotion of Ecuadorian fisheries. By Decree No. 6 of 2017, the Institute was attached to the Ministry of Aquaculture and Fisheries.

1.62. The Decree also provides for the creation of the Interinstitutional Committee for Aquaculture and Fisheries as a collegiate body of the Executive branch responsible for the Government's aquaculture and fisheries policies¹⁶, made up of representatives of the Ministry of Production, Foreign Trade and Investment (Chair); the Ministry of Agriculture and Livestock; and the Ministry of Transport and Public Works, as well as a representative of the fisheries and aquaculture sectors.

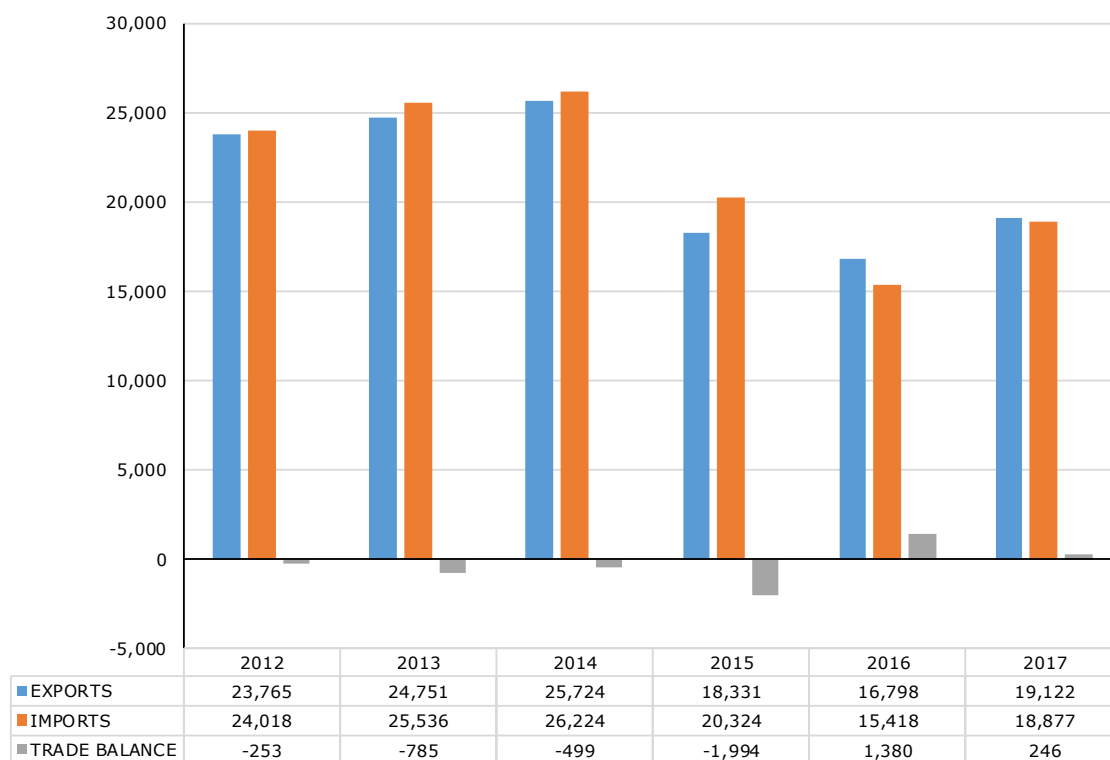
2 TRADE ENVIRONMENT AND TRADE POLICY

2.1 Trends in foreign trade and investment

2.1. During the period 2012-2017, the end result of the country's overall trade balance varied: from 2012 to 2015 it posted a deficit, while from 2016 onwards it was in surplus. The non-oil trade balance posted a structural deficit, an indication of how important oil exports are in the country's total exports, as can be seen in the charts below.

Chart 2.1 Ecuador's overall trade balance with the rest of the world, 2012-2017

(USD million)

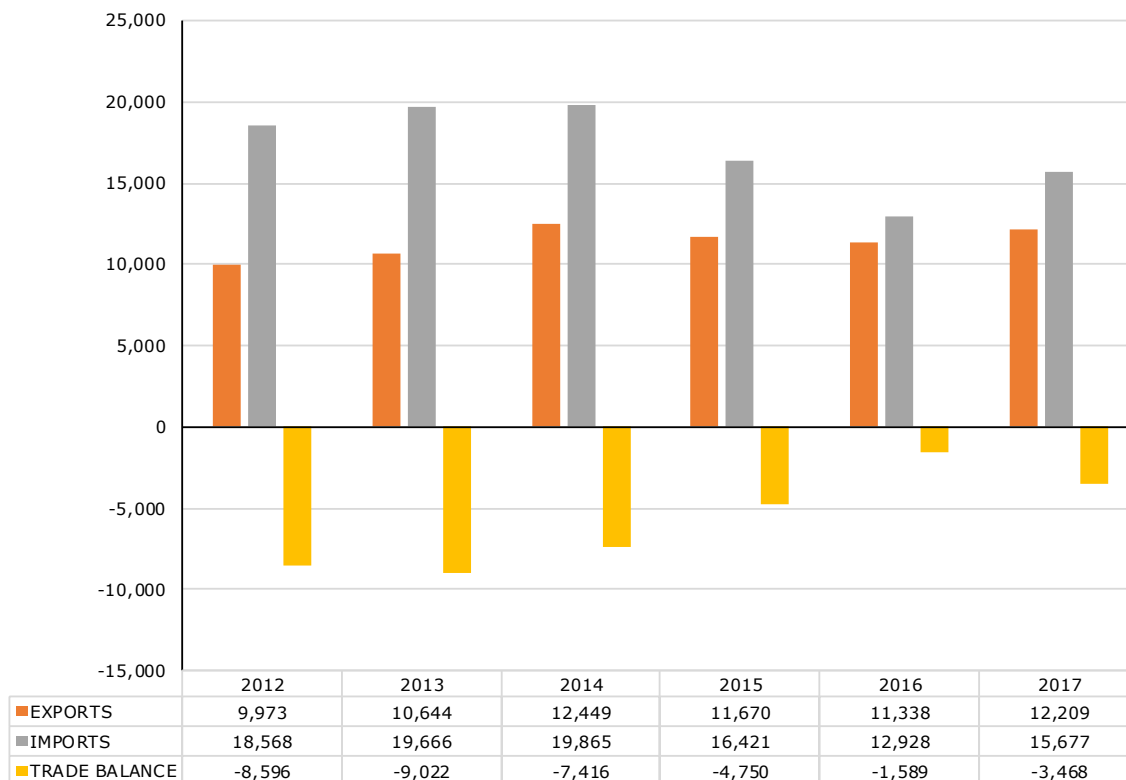


Source: Central Bank of Ecuador.

¹⁶ Prior to the institutional changes introduced by Decree No. 520, the Ministry of Aquaculture and Fisheries was responsible for formulating, planning, directing, managing and coordinating the implementation of guidelines, plans, programmes and projects relating to the aquaculture and fisheries sector. In other words, it was the governing and implementing body for aquaculture and fisheries policy.

Chart 2.2 Ecuador's non-oil trade balance with the rest of the world, 2012-2017

(USD million)

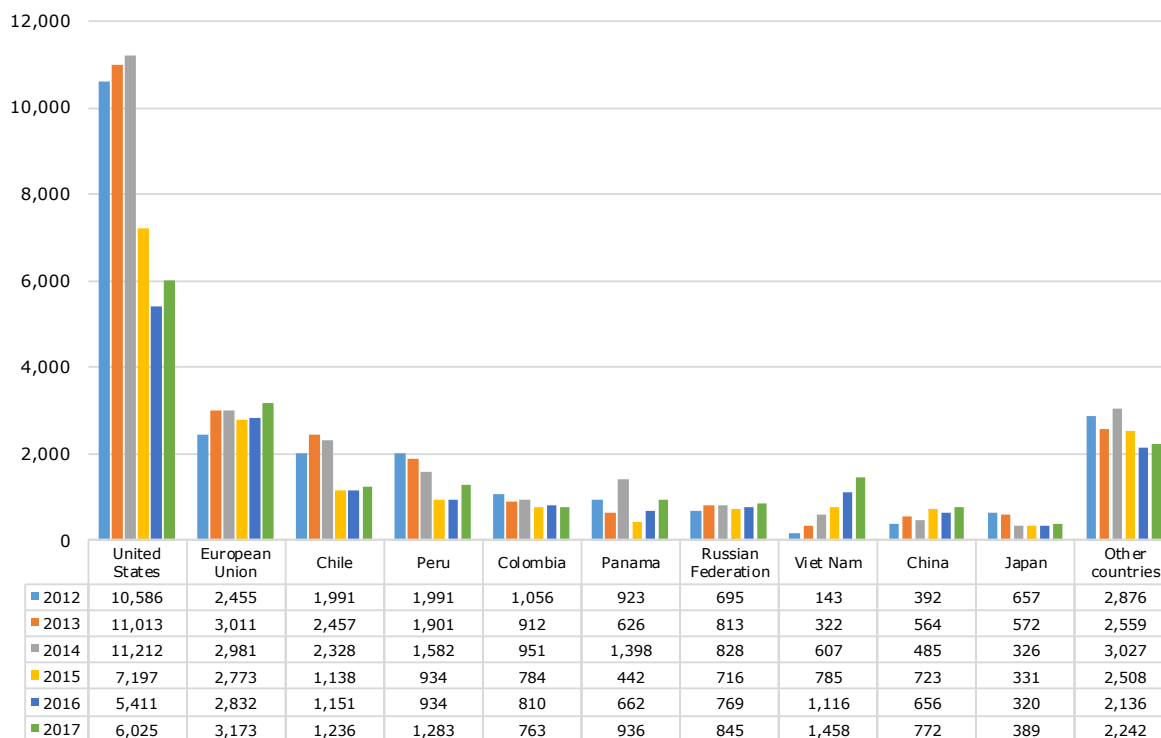


Source: Central Bank of Ecuador.

2.2. As regards Ecuador's total exports with the rest of the world, during the review period (2012-2017), export revenue averaged USD 21,415 million. The main destinations for Ecuador's exports were: the United States (40%), the European Union (13%), Chile (8%), Peru (7%), and Colombia (4%). During the period, the share of exports to the European Union, Viet Nam and China increased, while the share of exports to the United States, Chile, Colombia and Peru decreased.

Chart 2.3 Trend in Ecuador's overall exports according to country of destination, 2012-2017

(USD million)

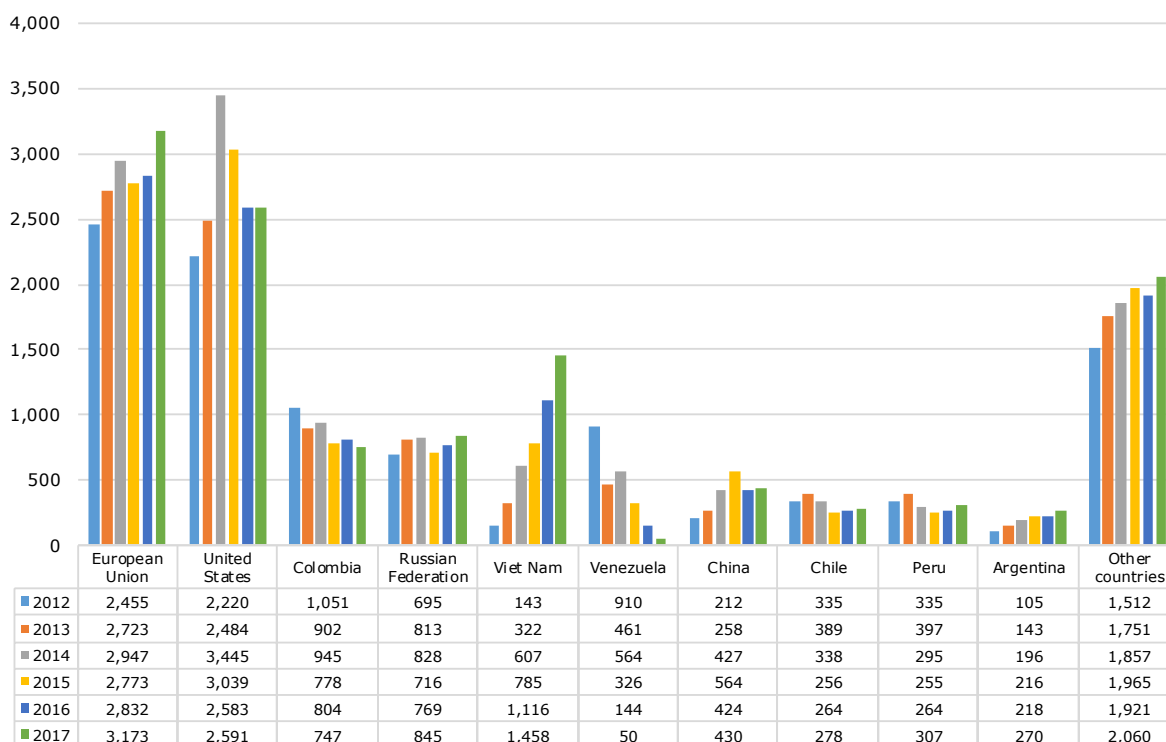


Source: Central Bank of Ecuador.

2.3. At the same time, the data revealed that since 2016, the European Union has become the main destination for non-oil exports, followed by the United States. Non-oil exports have also increased in markets such as Viet Nam, Russia, China and Argentina during that period.

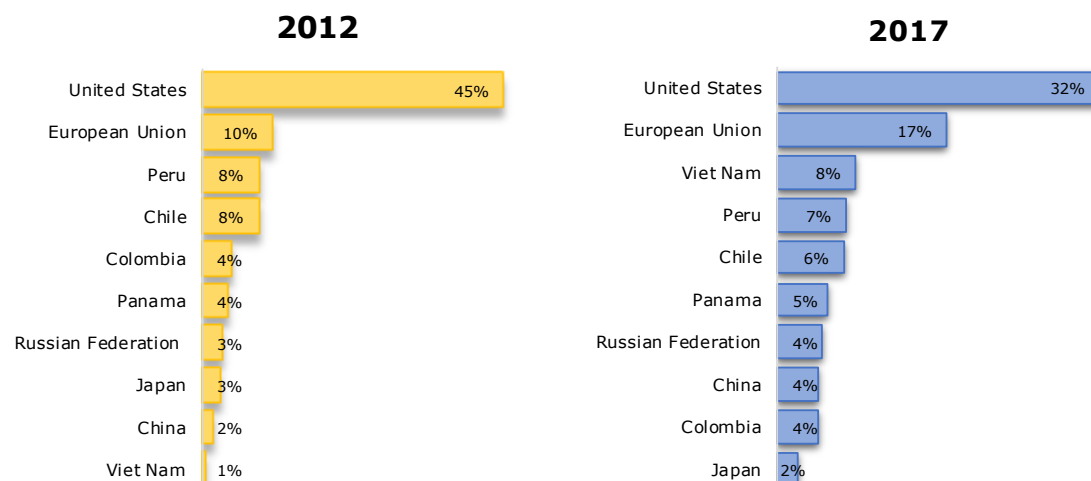
Chart 2.4 Trend in Ecuador's non-oil exports according to country of destination, 2012-2017

(USD million)



Source: Central Bank of Ecuador.

2.4. As can be seen from the chart below showing the main destinations for Ecuador's exports in 2012 and 2017, the markets whose share of total Ecuadorian exports increased were the European Union and Viet Nam. The other countries' shares remained practically the same.

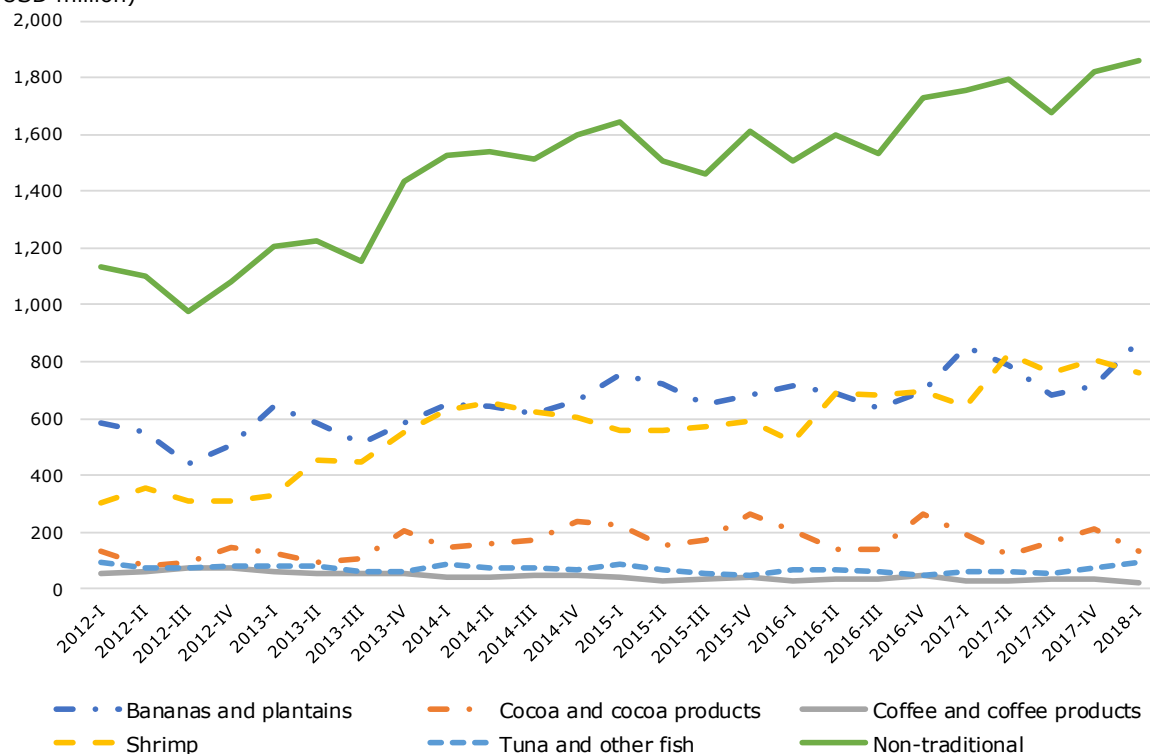
Chart 2.5 Ecuador's main export destinations, 2012 and 2017

Source: Central Bank of Ecuador.

2.5. A product breakdown of non-oil exports reveals that the trend or performance of traditional export products like bananas and plantains, cocoa and cocoa products, tuna and other fish, shrimp, and coffee and coffee products, together with non-traditional products, was similar throughout the review period.

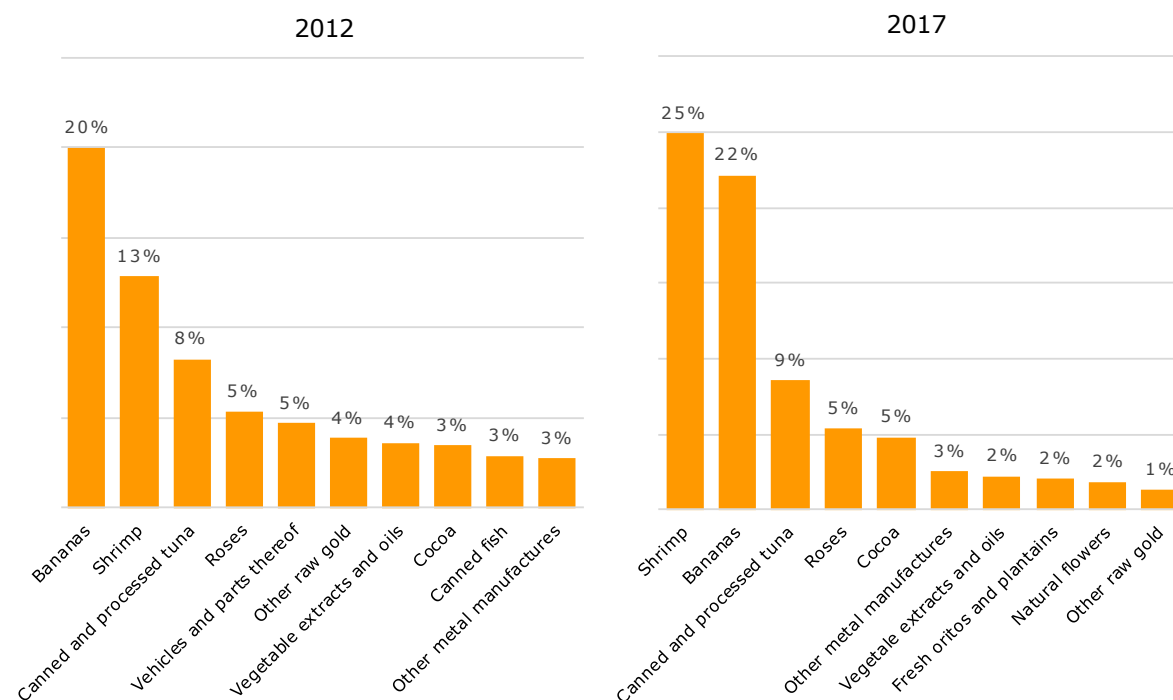
Chart 2.6 Performance of Ecuador's non-oil exports, 2012-2017

(USD million)



Source: Central Bank of Ecuador.

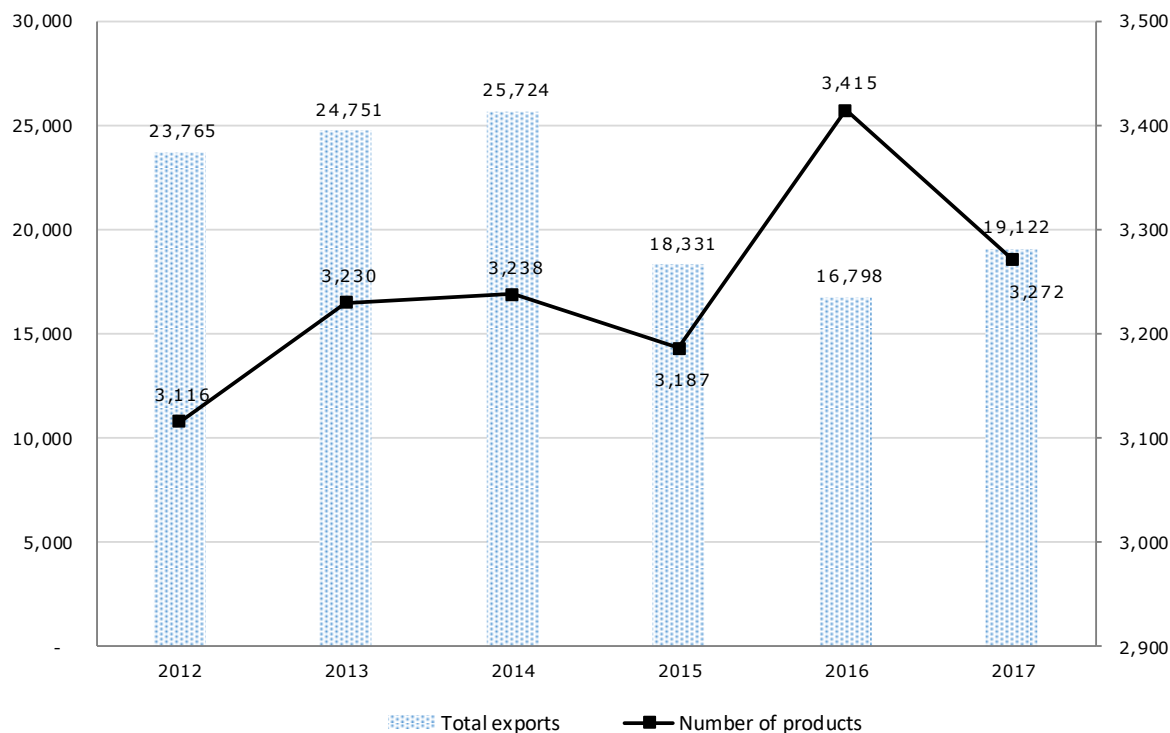
2.6. As can be seen below, in 2017 products such as shrimp, tuna, roses, metal manufactures, fresh bananas, vegetable oils and raw gold continued to make up a significant share of Ecuador's export basket, whose composition is practically identical to 2012. What varied, in some cases, was their share in total exports.

Chart 2.7 Main export products, 2012-2017

Source: Central Bank of Ecuador. Prepared by: Ministry of Foreign Trade and Investment of Ecuador.

2.7. While it is true that there has been a slight diversification in Ecuador's exportable basket, the share of the new product supply has not yet caught up with the share of products considered to be traditional. In 2012, Ecuador's overall exports totalled USD 23,765 million, and by the close of 2017 they were down to USD 19,122 million. At the same time, there has been a deconcentration of export destinations: in 2012, the concentration index¹⁷ stood at 0.23, while in 2017 it was down to 0.15.

Chart 2.8 Ecuador's exports to the rest of the world and number of products exported, 2012-2017



Source: Central Bank of Ecuador.

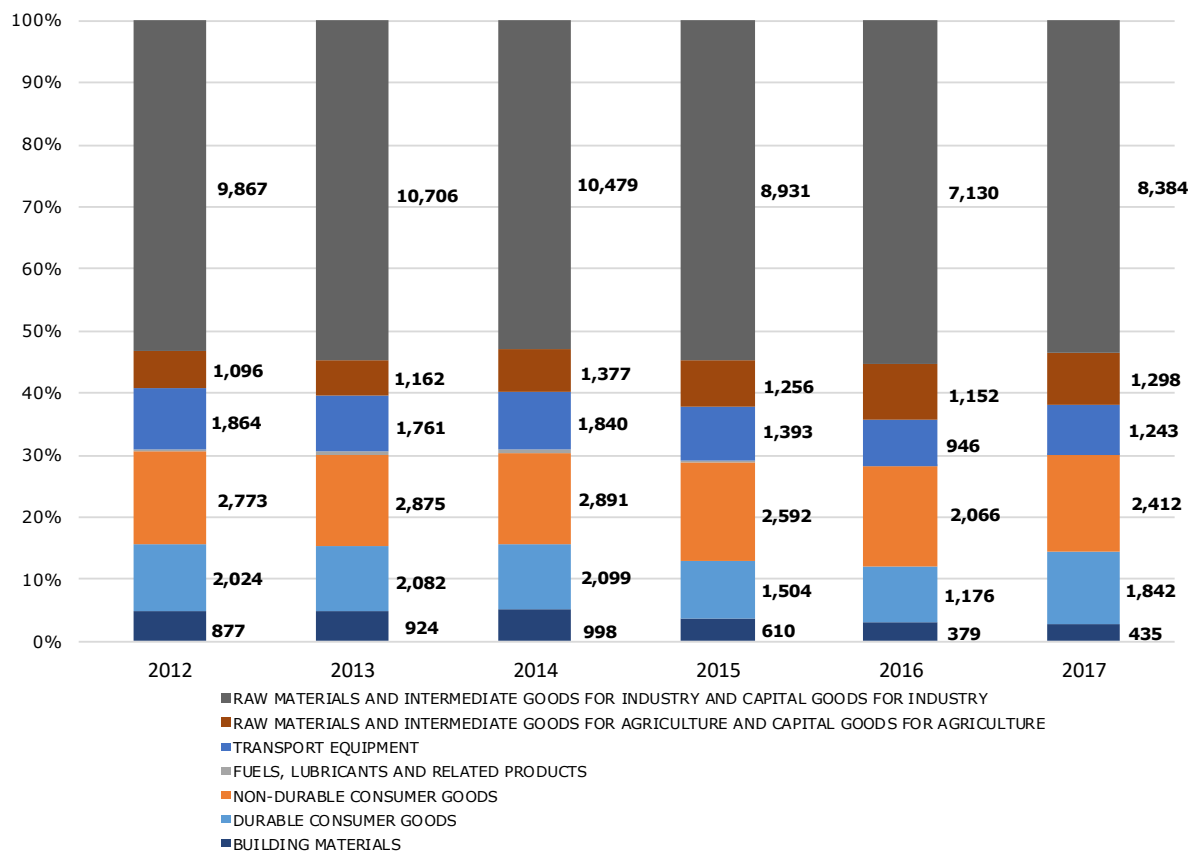
2.1.1 Trend in imports

2.8. According to the Classification by Economic Use or Destination (CUODE), most of the country's imports are raw materials, capital goods for industry and non-durable consumer goods. Although they vary, there has been a notable downward trend over the last two years of the period, from USD 9,867 million in 2012 to USD 8,384 million in 2017. Their share in total imports has remained stable at approximately 54%.

¹⁷ The concentration index (Herfindahl-Hirschman) is a value between zero and one which indicates each country's share as a destination for Ecuador's exports, with one indicating maximum concentration and zero perfect deconcentration.

Chart 2.9 Ecuador's imports by economic use or destination, 2012-2017

(USD million)



Source: Central Bank of Ecuador.

2.1.2 Trade in services

2.9. During the period 2012-2017, the balance of trade in services was in deficit. Service exports grew at an average year-on-year rate of 5.4%, while for service imports the annual rate was 0.8%. For 2017, the flow of services imports (USD 3,296 million) was still greater than that of services exports (USD 2,300 million).

Table 2.1 Balance of trade in services

(USD million)

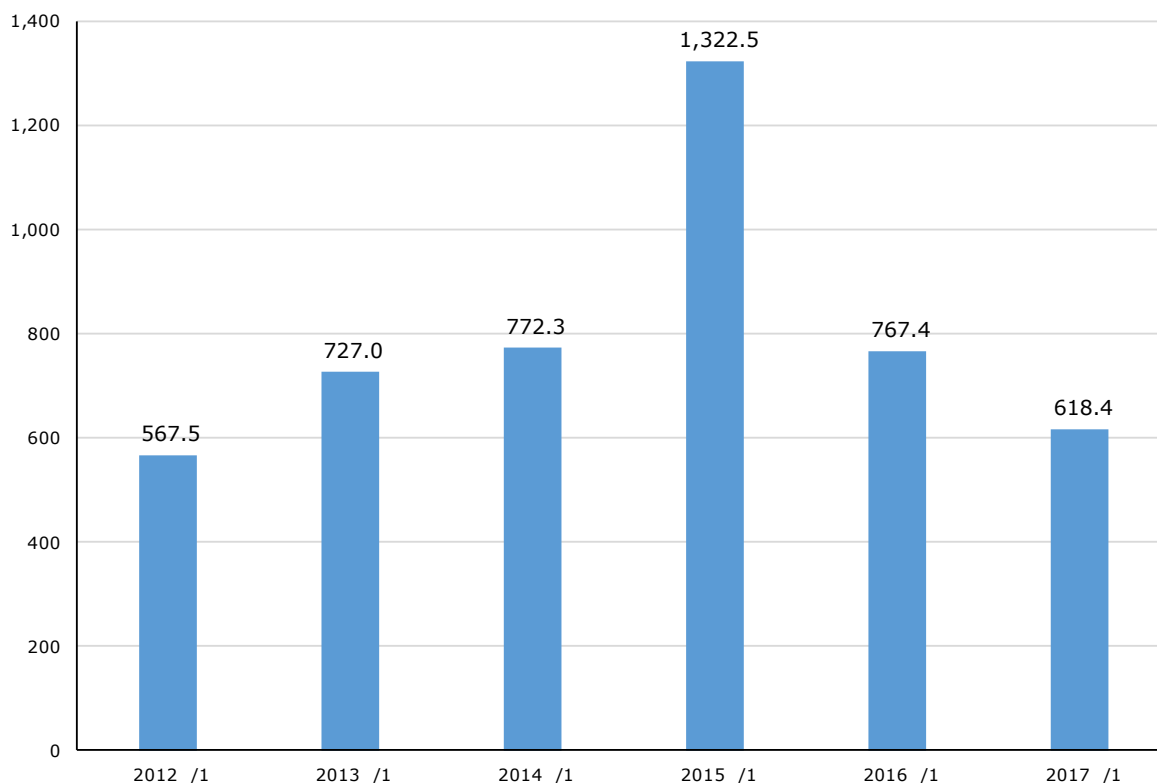
Activity	2012	2013	2014	2015	2016	2017	Average growth (%)
Services supplied (exported)	1,804	2,041	2,346	2,391	2,140	2,300	5.4%
Transport	409	436	437	444	410	414	0.3%
Travel	1,033	1,246	1,482	1,551	1,444	1,657	10.4%
Other services	363	359	427	396	286	229	7.4%
Services received (imported)	3,198	3,461	3,517	3,197	3,194	3,296	0.8%
Transport	1,708	1,709	1,744	1,510	1,238	1,471	-2.1%
Travel	611	622	635	639	661	688	2.4%
Other services	879	1,130	1,138	1,048	1,295	1,136	6.5%
BALANCE	-1,394	-1,420	-1,171	-805	-1,054	-996	-4.3%

Source: Central Bank of Ecuador.

2.10. Turning to foreign direct investment (FDI), between 2012 and 2015 there was a sustained growth in FDI flows at an average rate of 35%, as a result of the improving performance of the national economy. In 2015, FDI flows increased by 71% thanks to investments in mining and quarrying activities, manufacturing, and business services.

Chart 2.10 Foreign direct investment in Ecuador

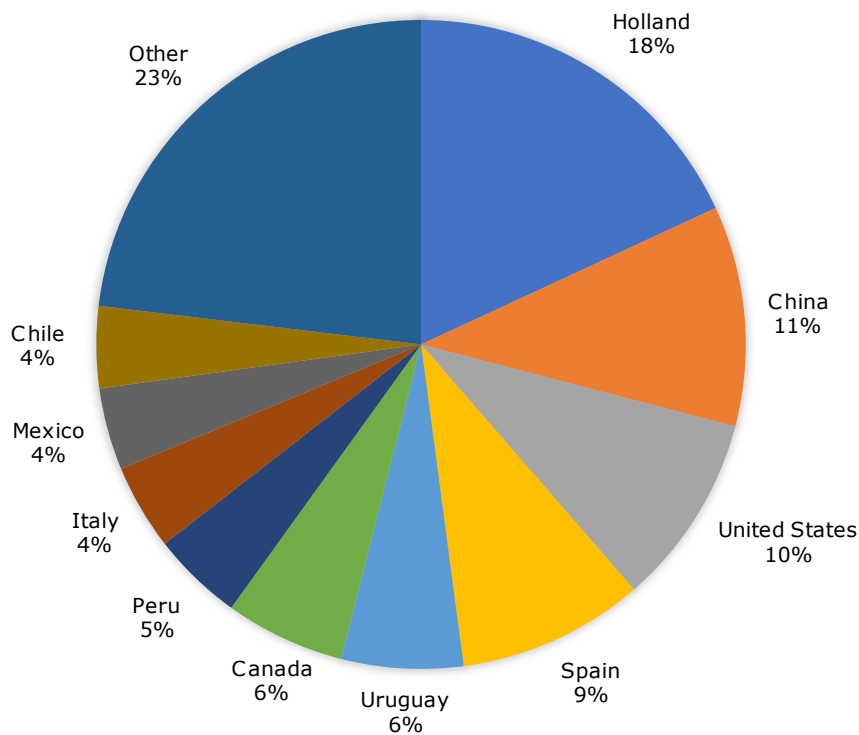
(USD million)



Source: BCE-SIGADE, Agency for Hydrocarbons Regulation and Control (ARCH), Hydrocarbons Secretariat (SHE), and the Supervisory Authority for Companies, Securities and Insurance (SCVS) – 1/data subject to revision, October 2018. Prepared by the Ministry of Foreign Trade and Investment of Ecuador.

2.11. During the period 2012-2017, the main activity attracting FDI flows was mining and quarrying, with a 47% share and a cumulative value of USD 2,254.28 million for the period, followed by the manufacturing industry, with a share of 17% and a cumulative value of USD 827.08 million, and trade, with a share of 15% and a cumulative value of USD 739.2 million.

2.12. Holland was the main country of origin of the FDI received between 2012 and 2017, with an 18% share of the total and a value of USD 860.4 million, followed by China with an 11% share and a value of USD 521.7 million.

Chart 2.11 Main sources of foreign investment in Ecuador

Source: Central Bank of Ecuador.

2.2 Trade policy and integration

2.13. In its efforts towards strategic integration in the world economy, Ecuador has drawn up an agenda of negotiations aimed at reinforcing its main export destinations while opening up new markets, diversifying its export basket and, through the reforms it has undertaken at the domestic level, creating a stable legal environment for FDI.

2.14. Ecuador has concluded trade agreements under various different integration schemes: (a) free trade agreements with the European Union; (b) partial scope agreements with Chile, MERCOSUR, Mexico, Cuba, Guatemala, El Salvador and Nicaragua; and (c) customs unions under the Andean Community with Bolivia, Colombia and Peru. The Comprehensive Economic Partnership Agreement with the European Free Trade Association (EFTA) will enter into force once it has been approved by the various parliaments. Negotiations are under way with South Korea and Turkey. The current government has applied to become an associate member of the Pacific Alliance, a bloc made up of Colombia, Chile, Mexico and Peru: negotiations are expected to begin in the first quarter of 2019. Ecuador is conducting evaluations with India prior to the initiation of negotiations, which would take place during 2019.

2.15. Similarly, Ecuador has expressed its interest in negotiating trade agreements with the United States, the Eurasian Economic Union, Canada, Japan, Costa Rica and the Dominican Republic.

2.3 Progress in implementing the Trade Facilitation Agreement

2.16. The WTO Trade Facilitation Agreement (TFA) was approved by the National Assembly in accordance with Ecuador's internal procedures for ratifying international instruments, and will shortly be notified to the WTO, once the process has been completed.

2.17. Ecuador joined the consensus to approve the TFA in Bali, and has notified its category A measures. It will notify its category B and C measures once it has notified the ratification of the Agreement. The TFA represents an opportunity to improve the trade facilitation measures applied by the national authorities both at the border and internally. Ecuador has progressed considerably in this respect, acting long before the Bali Agreement. For example, starting in 2011 it introduced the automatic inspection channel, which initially provided a basis for 36% of clearances, subsequently increasing to 56%. This enabled Ecuador to introduce a risk profile based on concurrent control in accordance with objective facilitation and control criteria.

2.18. October 2012 saw the implementation of the first part of the "Ecuapass" customs system, which brings together all of the different commercial platforms and services to enhance the facilitation and control of customs transactions.

2.19. The implementation of Ecuador's Single Window for Foreign Trade (VUE) began in November 2012, bringing together 23 government entities in order to optimize, automate and facilitate foreign trade operations.

2.20. The implementation of the new customs system, the VUE and the new customs legislation marked the fulfilment of a number of objectives linked to the modernization of Ecuador's customs system, including:

- introduction of the automatic inspection channel (green channel);
- introduction of the non-intrusive channel (X-ray);
- introduction of guaranteed payment;
- implementation of payment facilities;
- procedural manuals and system instructions published on the SENA website;
- "Ecuapass" electronic customs system based on the WCO data model version 3.0;
- Ecuadorian Single Window (VUE) for foreign trade formalities based on the WCO data model version 3.0;
- SENA Mobile (application for mobile devices);
- introduction of the Authorized Economic Operator (OEA) programme for a first "exporters" link;
- implementation of SENA Tracking;
- introduction of citizen oversight for inspections;
- implementation of an integrated consultation system (call centre, service desk);
- introduction of online auctioning;
- extended weekend services.

2.21. All of these tools have a direct influence on trade facilitation and have made it possible to tighten customs control while saving a significant amount of time and resources for foreign trade operators and the Ecuadorian Government.

2.4 Related policies

2.4.1 Investment

2.4.1.1 Regulatory framework for foreign investment

2.22. 29 December 2010 saw the entry into force of the Organic Code of Production, Trade and Investment (COPCI)¹⁸, which regulates the production process at the stages of production, distribution, exchange, trade, consumption, management of externalities and productive investment designed to achieve Good Living. The Code stipulates that foreign investment shall serve as a direct complement in strategic sectors of the economy which require investment and financing in order to achieve the objectives of the National Development Plan.

2.23. On 18 December 2015, the National Assembly of Ecuador approved the draft Organic Law on Public-Private Partnership and Foreign Investment Incentives¹⁹ with a view to introducing a number of incentives for the implementation of projects through public-private partnerships and establishing the necessary guidelines and institutional structures. Generally speaking, this Law promotes the financing of production and national and foreign investment, and seeks to boost private sector participation in the country's development with increased participation of the traditional economic operators wherever public and private investment can work together to stimulate the local production base and the national economy.

2.24. On 22 December 2017, by Executive Decree No. 252, the attraction and promotion of investment for the purpose of ensuring the complementarity of development objectives and strategies to generate employment and promote the inflow of foreign exchange was declared a State policy. Accordingly, the Strategic Committee for the Promotion and Attraction of Investment (CEPAI) was created as an intersectoral collegiate body of the Executive branch responsible for institutional coordination for the purpose of promoting, attracting, facilitating, concretizing and maintaining foreign investment in Ecuador; approving investment projects; and helping with the implementation of investments. The Ministry of Foreign Trade was appointed as the competent authority in investment matters.

2.25. On 21 August 2018, the Law on the Promotion of Production, Attraction of Investment and Generation of Employment²⁰ entered into force. Its purpose is to stimulate the economy and promote investment, employment and long-term fiscal sustainability by adapting the legal framework governing the country's economic, financial and productive activities in order to provide legal certainty and security as a means of favouring investment, employment and increased competitiveness in the country's production sector.

2.4.2 Agriculture and livestock

2.26. Agriculture is one of the country's most important activities, since not only does it provide food and raw materials, but it also contributes to economic and productive development and food security, helps to reduce poverty and vulnerability in the rural areas, and creates employment opportunities for a large part of Ecuador's population. The economically active population linked to agriculture currently totals about 2 million, so that 27% of Ecuador's employment is linked to agricultural production, which is of vital importance to the country's economic development in terms of job creation and foreign exchange at the primary and industrial levels. Over the past decade, the Ecuadorian agricultural sector has helped to reduce rural poverty from 61% to 38%. In spite of this progress, however, it is in rural areas that the highest levels of inequality and extreme poverty are still to be found.

2.27. During the period from 2012-2017, the average contribution of the agricultural sector to GDP was 8.04%, with an average year-on-year growth rate of 2%. The agricultural trade balance was positive, with an average year-on-year growth rate of 7% for exports and 1% for imports. The main agricultural exports were bananas, flowers and cocoa beans, while the main imports were soya bean oilcakes, wheat and animal feed. The main trading partners were the United States, the European Union, Russia, Peru and Chile. In 2017, the agricultural sector accounted for 51% of

¹⁸ Official Register, Supplement No. 351.

¹⁹ Official Register, Supplement No. 652, 18 December 2015.

²⁰ Published in the Official Register, Supplement No. 309 of 21 August 2018.

non-oil exports and 32% of total exports (USD 6,244 million). Agricultural imports accounted for 16% of non-oil imports and 13% of total imports (USD 2,566 million).

2.28. Surface area expansion is one of the pillars of the agricultural sector, and has the potential to guarantee Ecuador's food security. According to the National Institute of Statistics and Censuses (INEC-ESPAC), in 2017 the country had 8.3 million hectares at its disposal for agricultural purposes, such as permanent crops, transitional crops, and natural and cultivated pastures. This represents an 11% increase in the surface area for agricultural use since 2012 (7 million hectares). The most important crops for the domestic market are: rice, sugarcane, plantains, maize, tomatoes, onions, potatoes and cassava. The most extensively grown crops include cocoa (177,551 mt/year), rice (1,714,892 mt/year), African palm (3,124,069 mt/year), dry hard maize (1,319,379 mt/year), bananas (6,529,676 mt/year), plantains (610,413 mt/year).

2.29. The challenges facing the Ecuadorian agricultural sector are linked to the following variables: (i) sustainability in public policy; (ii) strengthening of markets and marketing; (iii) strengthening of the popular and solidarity economy; (iv) reduction of extreme poverty; (v) strengthening of unions and associations; (vi) access to resources: land and water; (vii) urban migration/generational problems; (viii) innovation and increased sustainable productivity; (ix) value added and new market demands; (x) financial inclusion; (xi) climate change and its impact.

2.30. Accordingly, the Ministry of Agriculture and Livestock (MAG), the agency responsible for agricultural policy in the country, is seeking to strengthen Ecuadorian agriculture through effective public policies aimed at improving productivity, democratizing the factors of production, facilitating access to markets and strengthening community development. For example, programmes such as the so-called *Gran Minga Nacional Agropecuaria* (GMNA) is one of the most important public policy tools for boosting agricultural development in priority territories in order to strengthen the sector in a viable and sustainable manner by improving competitiveness and productivity, democratizing access to non-financial services, making efficient use of natural resources, expanding access to the means of production without discrimination as to gender, generation or culture, in tune with nature and with an emphasis on rural family agriculture, which represents 75% of production units and is responsible for approximately 60% of the food consumed in the country. The GMNA is a mutually supportive and sustainable agricultural modernization strategy which coordinates the various public policies and instruments to the benefit of Ecuadorian rural areas, and in particular, of producers linked to rural family agriculture.

2.31. The main objectives of the GMNA are: (a) to reduce extreme poverty; (b) to generate employment; (c) to increase productivity and agricultural exports. The key is to realign agricultural policy with national development interests in order to guarantee sustainable and comprehensive progress in rural areas, access to healthy food, and improved living conditions for the population.

2.32. The GMNA's strategies are based on the following priority axes: market access, technical assistance, community development, research, and quality, as well as irrigation and land, which are essential factors in increasing productivity, building technical capacity and ensuring the efficient management of agricultural production resources. The key is to achieve and promote the modernization of agriculture in the country on the basis of competitiveness, sustainability and equity, in keeping with objectives such as food sovereignty and security and the strengthening of exports.

2.33. At the same time the Ministry of Agriculture and Livestock, in keeping with these strategies, is focusing its efforts on stimulating the development of the agricultural sector, reducing rural poverty, generating employment and improving rural welfare. These efforts can be subdivided into three main categories:

- **Markets:** improve access to local and international markets, emphasizing the small and medium-sized producers and associations and mitigating the impact of market failures and excessive involvement of intermediaries. This requires coordination of supply and demand, and the promotion of associative activities and mechanisms to facilitate marketing and help strengthen family agriculture networks, certifications for product differentiation and market access, etc.

- **Institutions:** strengthen the agency responsible for agricultural policy (MAG), ensuring that it operates rationally, institutionalizing projects and strengthening the institutions involved (the Agency for the Regulation and Control of Animal and Plant Health (AGROCALIDAD) and the National Agricultural Research Institute (INIAP)) in order to consolidate public policy efforts on the ground.
- **Services:** strengthen production systems and stimulate the rural and marginal urban economies by developing non-financial services such as research, pest and disease control, training and advisory services, marketing and promotion, etc., to be implemented by the MAG and its agencies (AGROCALIDAD and INIAP) in coordination with the decentralized autonomous governments, universities, technological institutes, private entities, and other local stakeholders.

2.4.3 Industry

2.4.3.1 Agro-industry

2.34. In 2015, the Ministry of Industry and Productivity, together with the Coordinating Ministry for Production, Employment and Competitiveness, drew up Ecuador's Industrial Policy 2016-2025, containing public policy guidelines to strengthen and enhance the industrial sector by strengthening local export-oriented chains. The policy was formulated on the basis of a general analysis of the country's industry involving the identification of priority sectors for generating employment and improving the level of jobs produced by the economy, namely agro-industry, intermediate and final industries, and basic industries.

2.35. In the agro-industrial sector, priority has also been given to value chains and establishing specific strategies tailored to the requirements of each one of the chains.

2.36. Industrial Policy was updated in 2018, maintaining the priority sectors as proposed in 2016 and basing public policy strategies on five pillars: investment, productivity, quality, innovation and markets. The chief aims are added value, diversification, and capacity building for competitive and innovative integration in new markets. Cross-cutting policies were also introduced with respect to incentives/business climate, foreign trade, human talent, and financing. Finally, in updating industrial policy, priority was also given to sectoral policies, which in the case of agro-industry involved the introduction of technical tools to achieve differentiation, improve cost competitiveness, and help develop innovation projects.

2.37. According to the Economic Commission for Latin America and the Caribbean, the agro-industrial chain includes more deprived social segments working directly in the agricultural area. Hence the need to ensure that chains are prioritized not only for their immediate contribution to the economy, but also for their potential contribution to social inclusion and exports. There are two challenges that are common to the chains and that public policy needs to address, namely low productivity and poor interconnection between agriculture and agro-industry, and the introduction of more dynamic products in markets that contribute to increasing revenue without increasing the current quantity of products exported.

2.38. For Ecuador, agro-industry, i.e. the processing of agricultural, livestock, forestry, aquaculture and fisheries products, has been identified as one of the most important sectors because it is a major generator of employment, accounting for 32% of the country's manufacturing workforce and contributing significantly to industrial GDP. Indeed, it accounted for 43% of non-oil industrial gross value-added. The most important goods for foreign trade are the product of processing chains in aquaculture (shrimp), fisheries (canned fish), palm (palm oil) and coffee (soluble coffee). This is the only sector of industry with a positive trade balance.

2.39. National development policies will be focusing on a number of growth-limiting factors that have been identified in the agro-industrial sector and will seek to introduce measures to eliminate them: low competitiveness and limited product diversification; exports consisting predominantly of raw materials with low value-added; and the high cost of raw materials in total production costs.

2.40. Against this backdrop, a number of development measures have been taken to address these limitations affecting the agro-industrial sector, *inter alia*:

- Defining priority chains: promoting the comprehensive development of certain agro-industrial chains, seeking to contribute equally to all of their components: cocoa, coffee, dairy products, bioenergy, aquaculture and fisheries, palm oil and meat products.
- Introducing technical differentiation tools: placing a variety of products internationally known for their high quality in specialized markets by adopting differentiation criteria such as traceability; designations of origin; and fair trade, organic, sustainable, etc. certifications.
- Setting up an Interministerial Technical Committee for the Promotion of Competitiveness in the Agro-Industrial Chain: formulation of an efficient policy that provides for support via a "chain" approach that maintains the link with the competitiveness of the primary sector and the competitiveness of industry and trade.
- Development of innovation projects for agro-industry: creation of a tripartite National and International Innovation Network (Public-Industry Universities) with a view to identifying and adopting new technologies to improve and develop new products and processes aimed at enhancing the value-added and diversification of production.

2.4.4 Fisheries and Aquaculture

2.41. Fisheries and aquaculture are among the most dynamic sectors of Ecuador's economy. In 2012, they generated USD 2,863 million worth of foreign exchange, representing 12.05% of the country's total exports. The following years brought sustainable growth, especially in the aquaculture sector, and by 2017, fisheries and aquaculture had grown by 60.56% in comparison to 2012, reaching a total value of USD 4,597 million, or 24.04% of the country's total exports. In terms of contribution to national GDP, aquaculture and fisheries products accounted for 3.26% in 2012, and 4.41% in 2017, by which time aquaculture had become the main non-oil foreign exchange earner.

2.42. 98% of the aquaculture sector consists of shrimp farming, while the remaining 2% consists of low temperature species (trout) and tropical species such as tilapia, cachama (tambaqui), and paiche (arapaima), to name but a few. In 2010, shrimp farming produced 175,000 tonnes, a figure which rose to 491,000 tonnes by 2017, a growth of approximately 180%. The aquaculture sector accounted for more than a 180,000 direct and indirect jobs in areas that are not used for agriculture. In the fisheries sector, exports consist mainly of canned tuna and fresh and frozen fish. In 2010, the sector generated USD 957 million worth of foreign exchange. Exports peaked in 2014 at USD 1,694 million, while in 2017, fisheries exports totalled USD 1,569 million. The fisheries sector provides 300,000 to 350,000 jobs.

2.43. The Under-Secretariat for Fisheries is the authority responsible for Ecuador's fisheries policies. The main legal instrument governing the sector is the 1974 Law on Fishing and Fisheries Development and its latest amendments issued by Presidential Decree No. 852 introducing amendments to the General Regulations implementing the Law on Fishing and Fisheries Development of 2015, which included definitions of illegal, unreported and unregulated fishing (IUU fishing) in the country's legislation. A new law on fisheries has been submitted to the national authorities who are currently reviewing the bill for submission to the National Assembly for approval.

2.44. For years, Ecuador has adhered to the principle of sustainable development of resources in all phases of its fisheries activities by applying the management measures set out in its domestic legislation and in the resolutions issued by the Regional Fisheries Management Organizations (RFMOs), thereby ensuring sound management and conservation of fisheries resources.

2.45. In addition, the national authorities are working in accordance with the international standards of the Marine Stewardship Council (MSC) to develop Fishery Improvement Projects (FIPs) for the management of its resources.

2.46. Illegal, unreported and unregulated fishing (IUU fishing) is present in all fisheries, and represents a direct and significant threat both to management efforts and to the sustainability and conservation of fishery resources and marine biodiversity. To counter that threat, Ecuador has taken important steps in terms of international cooperation to combat, prevent and eliminate IUU fishing.

2.47. On 7 December 2016, Ecuador joined the Agreement for the Implementation of the Provisions of the UN Convention on the Law of the Sea of 10 December 1982 relating to the Conservation and Management of Straddling Fish Stocks and Highly Migratory Fish Stocks.

2.48. Other actions by Ecuador for the sustainable management of its fisheries include the National Plan of Action to Prevent, Deter, and Eliminate Illegal, Unreported and Unregulated Fishing (NPOA-IUU) in 2015, which set out the country's policy for combating IUU in the territorial waters of Ecuador and the adjacent high seas. This instrument is compatible with the FAO's International Plan of Action to Prevent, Deter, and Eliminate Illegal, Unreported and Unregulated Fishing (IPOA-IUU) as well as regional and international fisheries regulations.

2.49. Similarly, steps have been taken towards the domestic ratification of the Agreement on Port States Measures to Prevent, Deter and Eliminate Illegal, Unreported and Unregulated Fishing, which is currently being examined in the Commission on Sovereignty, Integration, International Relations and Comprehensive Security of the Ecuadorian National Assembly. Ratification should be completed in 2018.

2.50. Ecuador has implemented a control system for aquaculture and fisheries exports and imports (traceability, monitoring, control and surveillance) which has helped to identify the potential risks involved in the harvesting and sale of products. This system is supplemented by domestic legislation requiring compliance with procedures such as catch reporting, declaration of origin (farmed or wild), traceability and establishment regulations. It is further strengthened through the enforcement of sustainability and health laws and resolutions based on international standards and those applied by the leading destination markets, such as the European Union, the United States and certain countries of South America. These provisions guarantee that the products entering the country are the product of legal and certified activities.

2.51. Labour policy is a cross-cutting issue in Ecuador's economic and productive activities. In the case of fisheries, a number of international provisions have been adopted, such as Convention 112 concerning the Minimum Age for Admission to Employment as Fishermen, and Convention 126 concerning Accommodation on Board Fishing Vessels. On the domestic front, Ecuador has partnered with different domestic and international NGOs and civil society organizations to develop the National Plan for the Prevention and Progressive Eradication of Child Labour in Ecuador (PETI), which has been implemented through a variety of projects culminating with the current "Project to Eradicate Child Labour 2014-2017".

2.4.5 MSMEs, Crafts and the Popular and Solidarity Economy (EPS)

2.52. Between 2012 and 2016, the number of enterprises in Ecuador increased by more than 12% from 749,912 to 843,745. Of these enterprises, 99.54% are MSMEs. In 2016, 8.62% of the MSMEs belonged to the manufacturing sector, i.e. 72,735. As of June 2018, 13,845 of them belonged to the Popular and Solidarity Economy Sector, and of those, 7,573 (54%) were involved in production, and 5,703 (41%) in services.

2.53. Through its Under-Secretariat for MSMEs and Crafts, the Ministry of Industry and Productivity is responsible for promoting the development of MSMEs, Artisanal Production Units and EPS units²¹: it will formulate public policies and devise strategies to stimulate, formalize and boost the production capacity of the enterprises concerned, creating production networks and chains that will help them to integrate in domestic and international markets.

²¹ The body responsible for promoting the development of MSMEs will be decided or ratified on the basis of Executive Decree No. 520 of 20 September 2018.

2.54. To that end, a number of projects and programmes have been introduced to promote production and trade, for example:

- MiproLab Project: promotion of responsible productive activity generating business models that are attractive to investors, through strategic partnerships with universities, the public and private sectors, and the stakeholders of the entrepreneurship and innovation ecosystem, in order to ensure that emerging innovative projects receive comprehensive support.
- ENCADENA Project: the purpose of this project is to encourage and establish the necessary conditions for the development of competitiveness and productivity in the industrial and manufacturing sectors. The idea is to generate, within the companies, conditions conducive to linking the MSMEs, crafts and EPS to large-scale industry.
- Non-Project Project: this project is co-financed with non-repayable international cooperation funds targeting association proposals to help to improve and innovate the country's production processes.
- Exportafacil Programme: to simplify export procedures and send products abroad through the mail service.

2.4.6 Manufacturing

2.55. The manufacturing sector's share in GDP (excluding oil refining) varied between 11.5% to 11.8% during the period 2012-2017, with its share in employment following much the same pattern, fluctuating between 10% and 11%.

2.56. In 2012, manufacturing exports – excluding oil refining – totalled USD 6.7 billion, reaching their peak in 2014 with USD 8.2 billion before falling back to USD 7.4 billion in 2017. This represented 27.2% of total merchandise exports in 2012, and 38.5% in 2017.

2.57. The overall objective of Ecuador's industrial policy is to promote the integration of high value-added manufactures in global markets. Since 2010, the production sector has been supported by a legal framework (Organic Code of Production, Trade and Investment; Organic Law on Incentives for Public and Private Partnerships; Organic Law on Solidarity and Citizen Co-Responsibility), and that legal framework is currently being strengthened by other legal initiatives, such as the Law on the Promotion of Production, Attraction of Investment and Generation of Employment.

2.4.7 Ecuadorian quality system and technical regulation

2.58. In order to provide legal certainty, confidence and transparency, the Government of Ecuador has been working on a proposal to reform the national quality system so that it meets the needs of the production sector in terms of regulations and quality, thereby helping producers to strengthen their presence in domestic and international markets. The starting point of the reform process is the country's current regulatory framework, the WTO Agreement on Technical Barriers to Trade, and international agreements on technical regulations.

2.59. The Law on the Ecuadorian Quality System is currently being reviewed and updated with a view to: promoting trade liberalization and gaining access to world markets by complying with the requirements of the destination markets and international agreements; acknowledging the leading role of the private sector in the Ecuadorian Quality System; strengthening market control and surveillance mechanisms in order to guarantee consumer access to safe and certified quality products and adopting international standards as a means of ensuring access to international markets for products manufactured in the country; and establishing good regulation practices.

2.60. Alongside these efforts, Ecuador is pursuing a process aimed at improving its technical regulations (RTE INEN) – notified to the WTO – that are already in force or that are at the draft stage. The main purpose of this reform is transparency, and to ensure that technical regulations fulfil the legitimate objectives for which they were created and that they are in line with the international agreements, using international regulations where appropriate; and the adoption of

good regulatory practices. The Government hopes that the improvements will benefit the stakeholders in the production chain, i.e. regulators, producers, importers, traders and consumers.

3 CONCLUSIONS

3.1. The review period can be divided into two clearly defined stages which reflect the development of the Ecuadorian economy. The first of these stages, from 2010 to 2014, saw an annual average GDP growth rate of 5.2% (according to ECLAC data, higher than the Latin American average of 3.5%), driven, among other variables, by the high price of oil and greater fiscal space for public investment. During this period, poverty decreased from 36% in 2009 to 22.5% in 2014. The Gini inequality coefficient fell from 0.5 to 0.47.

3.2. During the second stage, which began in 2015, the economy lost its momentum. It grew by 0.1% in 2015 and then contracted by 1.2% in 2016, as a result of exogenous factors such as the appreciation of the dollar at a time when the neighbouring countries were depreciating their currencies; a sharp fall in the price of crude oil; a significant drop in export revenue; and serious damage and losses suffered as a result of the earthquake in April 2016.

3.3. Reacting to these developments, Ecuador changed its economic development model and undertook a series of reforms to improve the investment climate and promote private sector participation, convinced that the public sector could no longer continue to be the driver of economic growth that it had been over the past decade. The new model was based on investment in the production sector, and in order to sustain dollarization, it relied chiefly on agricultural exports, tourism, large-scale mining, oil production and the attraction of foreign investment in general.

3.4. Since the new Government took over in May 2017, a number of measures have been introduced to support the production sector. In current terms, GDP reached USD 104,296 million and recorded an increase of 2.4% in constant terms, driven chiefly by a year-on-year growth of 5.3% in investment and 3.7% in private sector consumption.

3.5. Moreover, the need for a constant flow of foreign exchange to maintain dollarization has meant that trade and fiscal policy has had to concentrate on optimizing the balance of payments, promoting foreign direct investment and maintaining a sustainable trade deficit.

3.6. Ecuador's investment policy has produced a legal framework of laws and regulations to guide and support budgetary, tax and tariff measures as well as measures to promote production. These laws were further strengthened by the adoption, in August 2018, of the so-called Organic Law on the Promotion of Production, Attraction of Investment, Generation of Employment and Fiscal Stability and Balance, which seeks to boost competitiveness, restore the fiscal balance and reduce debt, and above all, to improve the mechanisms for attracting investment, in order to relieve some of the burden on business and manufacturing – in other words, to boost competitiveness, investment and employment.

3.7. As regards strategic integration in the global economy, Ecuador has redefined its negotiating agenda in order to consolidate its main export destinations and open up new markets, diversify its export basket and, through domestic reform, create a stable legal environment to attract FDI.

3.8. At the same time, Ecuador will seek to sustain public sector investment in infrastructure and other development projects through private investment under the Public-Private Partnership (APP) scheme.

3.9. On the social front, it is worth highlighting Ecuador's "Plan Toda una Vida" (Plan for a Lifetime), which is a reflection of Ecuador's social policy committed to inclusion, equality, equity and justice with a view to eliminating barriers and eradicating poverty.