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## IMPORTATION OF THE MANUFACTURING SECTOR OF ECUADOR AND ITS IMPLICATIONS

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**Abstract:** The Ecuadorian incorporated product (PEI) arises through the State policy of strategic import substitution, as a way to encourage industrial production in the country, with the objective of determining the composition of the Ecuadorian incorporated product (PEI). A cross-sectional, exploratory and descriptive study was carried out, in which the collection of information consisted of collecting data obtained through official channels from companies in the economic sectors involved in the production, import and export of inputs, and that use a certain number of materials from different destinations in their production processes. As a result, it was evidenced that import substitution is a development strategy that can benefit the growth of the national market. This model of import substitution allows important advances, but it also generates structural imbalances. At the moment there is no precise measurement related to the percentage of this local added value that this good has as a finished product, causing a problem that is characteristic of the sector, making it difficult for the actors involved to access better planning in their production processes.

**Keywords:** Productive matrix, Substitutability, Fiscal Sacrifice, Productivity, Intermediate inputs.

## INTRODUCTION

In Ecuador, up to now, there is no study on the true Ecuadorian added value that is incorporated into manufactured products, even for those of entirely national manufacture and imported components. The existing methodology for statistical studies does not allow to identify the amount of the Ecuadorian product incorporated in the productive processes developed within the country, fundamentally for the sector of the manufacturing industry of goods such as vehicles, televisions, cell phones,

processed foods, non-metal products and others. , being an issue that involves the economic development of Ecuador within the framework of national politics.

In the country, the importance of companies maintaining a high level of incorporated Ecuadorian product should be considered as an object of analysis, which will lead to an improvement in the economy, which can be used as a policy instrument and for the establishment of the baseline. reference, to establish different productive objectives in the Ecuadorian manufacturing sector.

The Ecuadorian incorporated product (PEI) arises as a way to encourage industrial production in the country, generating an incentive for these companies, mostly assemblers, to reduce the tariff the higher the percentage of Ecuadorian product incorporated (Hughes and Merton, 1996; Vargas, 2006).

Given the vulnerability of the economy and the domestic market, import substitution for industrialization was proposed, and only in cases where private investment is minimal should it be associated to make up for the deficiency (Hobbs, Kerr, and Klein, 1998).

There are two internal necessary conditions in Latin American economies for industrialization by the import substitution model (Hobbs JE, 2001).

The existence of an elastic supply in the industrial structure.

That the growth effect linked to the new strategy will overcome the depressive effect of the contraction of export activities.

Within the environment and framework of selective import substitution, there are different schools that promote different theories, among them the developmentalist theory that was criticized for its non-historical, mechanistic nature and focused on the internal diagnosis of the countries and that was unaware of its insertion in the

international economic system (Fulton, 1999; Pearce, 1997).

Said concepts supposed that the countries carry out structural reforms with the economic, social and cultural policies that promote social mobility and the necessary state planning for the development by substitution of imports or “inward growth”, since it was identified as the main cause of the backwardness of the Latin American countries, the dependence on the export of primary products and the lack of industrialization.

In the course of the 1960s, the vision of ECLAC, while it became a formula for public intervention in which the dualistic vision of coexistence between traditional and modern sectors lay, was harshly criticized because it mythologized the influence of feudalism in underdevelopment, ignoring that it is a historical product consequence of the capitalist expansion of appropriation of surpluses by minorities (Fearne, 1998); leaving aside asymmetrical relations between countries and ignoring class relations within national economies (Green and Dos Samos, 1992); In addition, this critique extended to the scant analysis of the systems of domination and of the social forces for the transformation of the countries of the region (Obschatko, 1997).

Import substitution is a development strategy that can benefit the growth of the national market, where the driving force is the expansion of local industry and the State plays a crucial role through indicative planning, the construction of state-owned industries in key sectors, the allocation of credits and the astute application of temporary protectionist policies in the foreign trade sector (Bárcena and North, 1993).

## **ECONOMIC MODELS OF PRODUCTION**

The economic theory of production deals precisely with this particular topic and its

objective is to provide the businessman or manager with the information necessary for the company to efficiently organize its production process, efficiently using those limited and expensive productive factors and thus maximize the profits or benefits of the owners (Vargas, 2014).

Within the theory, production is based on the productive forces and the relations of production, this is how Karl Marx’s model was born.

The economic model outlined by Marx points to production as the central axis and the starting point of the economic process, while triggering a reciprocal interdependence or mutual conditioning with the rest of the phases such as exchange (circulation), distribution and trade. consumption (Enríquez, 2017).

“The economy of the countries depends to a large extent on the progress of the productive sector, for which companies play a significant role, since their performance will depend on whether growth or stagnation is generated” (Gómez, 2011).

Therefore, productivity and competitiveness is the set to form the effectiveness of the final product, since they provide strategies that allow organizations to optimize resources and improve market positioning.

## **IMPORTANCE OF THE SUPPLY CHAIN**

A supply chain is the set of all activities related to the production of products, services and information in relation to raw materials. Also, it relates to planning, logistics management and collaboration with associates, which can be suppliers and clients (Tortorella, Giglio and Limon, 2018).

On the other hand, supply chain management is important in companies, for which many companies invest to achieve benefits and improve their processes.

Therefore, the processes include the purchase selection, programming in the different products (Camacho, Gómez and Monroy, 2012).

For De la Garza (2014), the supply chain as objectives has:

- Provide an adequate service to the final consumer.
- The delivery of products in a reliable and timely manner (time, place and quality)
- Delivery capacity of the necessary variety of products (different management for each product)
- proper balance
- Increase the capacity of participants to make decisions, formulate plans and outline the implementation of a series of actions aimed at:
- Improved productivity of the operational logistics system.
- Increased levels of customer service.
- Implement actions to improve operations management and develop lasting relationships of great benefit with suppliers and customers (p. 4).

## **INCORPORATED ECUADORIAN PRODUCT**

The Completely Knock Down (CKD), is the set of imported parts and pieces, for the realization of the assembly of its products. Therefore, companies to import CKD must comply with requirements, authorizations and licenses.

The Foreign Trade Committee (COMEX) according to “The reduction of the tariff % Adv applies according to the table of Annex I of Resolution No. 64 of COMEX, based on the percentage of the Ecuadorian product incorporated (PEI), Minimum Tariff 5.25%”

(Ministry Foreign Trade Investment and Fisheries Production, 2021).

According to (Superintendency of control of market power, 2017) (Scpm), in Ecuador product assembly companies play an important role in productive development.

## **MATERIALS AND METHODS**

An analytical and empirical method was used, since the natural behavior of companies must be studied depending on each of the sectors and know what their evolution has been over time.

For the elaboration of the models that determine the percentage of Ecuadorian Product Incorporated in the national production, an analysis was carried out by manufacturing sector using the Standard International Industrial Classification (CIU to 2 digits).

For this study, the databases of the Super Intendency of the company (SUPERCIAS), the Ministry of Production (MIPRO) and the National Customs Service of Ecuador (SENAE) were accessed, which allowed structuring a representative sample (size and significance) of the sector. manufacturing, Once the sample was selected, data from the Supercias were sought, and with the data obtained by SENAE, the data obtained began to be crossed until a relationship was found between the level of importation and production of a good, after which it was carried out carry out an informal analysis supported by descriptive statistics with trend measures; to corroborate the import segments by ISIC.

## **RESULTS**

Within the main manufacturing sectors of the country, the Food segment is one of the most representative; Likewise, the automotive sector, beverages and other sectors, which have been products of the analysis of this research, for them have been segmented by

sector and the most representative company of the conglomerates was studied, in order to know their dynamism. or demand for an imported intermediate product in a final product produced in Ecuador.

### **IMPORTS OF THE MOST REPRESENTATIVE INDUSTRIES FOR EACH MANUFACTURING SECTOR**

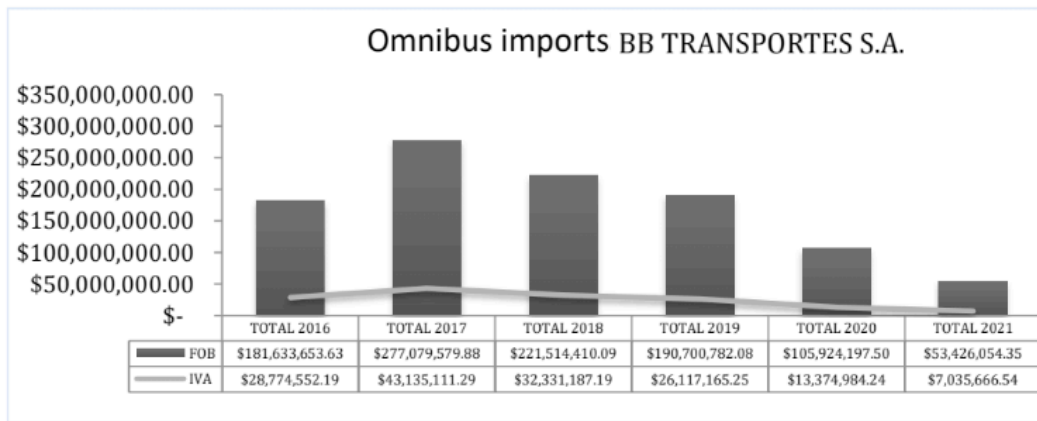
The company Ómnibus Transporte is one of the largest of the CIIU 29 of the Ecuadorian industry; Likewise, it is the company that imports car parts the most to later proceed with their assembly: The main imported components are: CKD complete set of parts for cars, trucks, among others, as well as other important parts such as brake cables, accelerator , doors, bolts, the engine, glass, steering wheels, doors, etc. This company imports all the parts of the cars, thus more than 50% of its components are foreign-made. For 2016, the import amounted to \$181,633,653.63, being until then a considerable figure for the company, in 2017 its growth amounted to 53% of that total, VAT represented 16% of taxes recorded for the total of imports, This market remained in constant growth until the end of 2018, in 2019 it registered a decrease of -14%, after which it registered a decrease of -44% and for the year 2021 of -50%; Despite the constant decrease, its ratio presented an average weight of 15% of VAT in relation to FOB.

Procesadora Nacional de Alimentos (PRONACA), is the largest company in the CIIU 10 segment, dedicated to the production and distribution of food products and is one of the companies that has grown the most in recent years, as well as the one with the highest annual imports. . Going from importing \$110,585,760.45 in 2016 to registering approximately \$674,862,244.77, this company has been constantly growing, likewise the VAT paid for being food products has a ratio

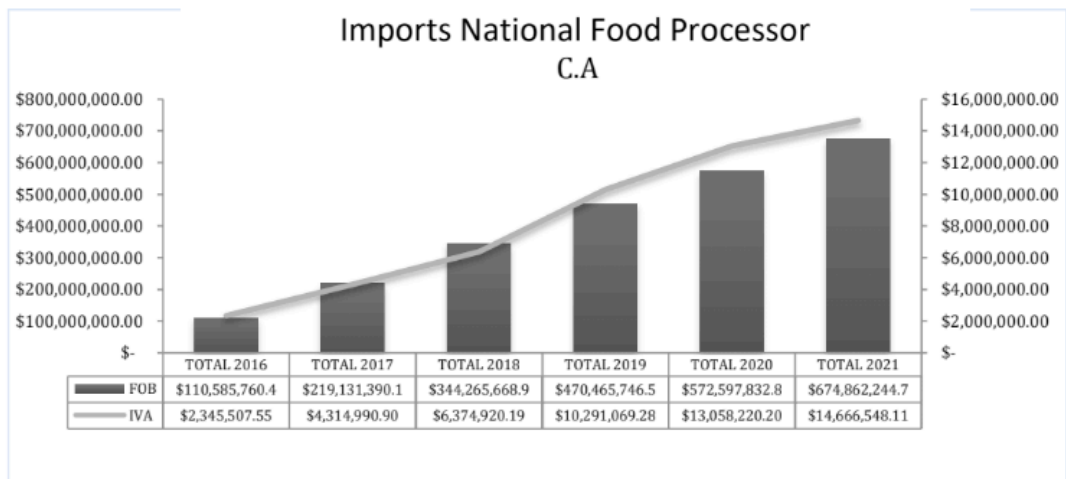
of 2% of the total FOB. The products imported by this company are intermediate products for the elaboration of another good such as dyes, flavorings, intermediate products for dog food, for sausages, as well as the importation of poultry meat, In addition to this, it imports all the components of the machinery and useful tools in the factories. It is noteworthy that imports of intermediate products are on a large scale, with companies from the United States as the main supplier.

The motorcycle assembly company Motorcycle Assembly is dedicated to importing all the components of the motorcycles of highly demanded brands in the Country, Motorcycle is imported in CKD which includes its assembly parts, in addition to mirrors, brake shoes, spark plug, side covers among other components. The main supplier is China, thus these Asian brands are the ones that predominate in the Ecuadorian market. In 2016, imports in FOB terms were \$5,687,806.08 per year with the lowest recorded amount; However, in 2017 it amounted to \$9,062,236.46, representing a 56% growth. In 2018, the growth trend was maintained, registering \$13,998,793, 36 for the following year there was a decrease of -10% and for 2020 of -5% and during 2021 the negative trend of -12% growth continued, with the main cause being the incorporation of new brands, which leads to the trend of greater competition and less market capture. The VAT ratio in relation to FOB varies according to the year, however the average ratio was approximately 14%.

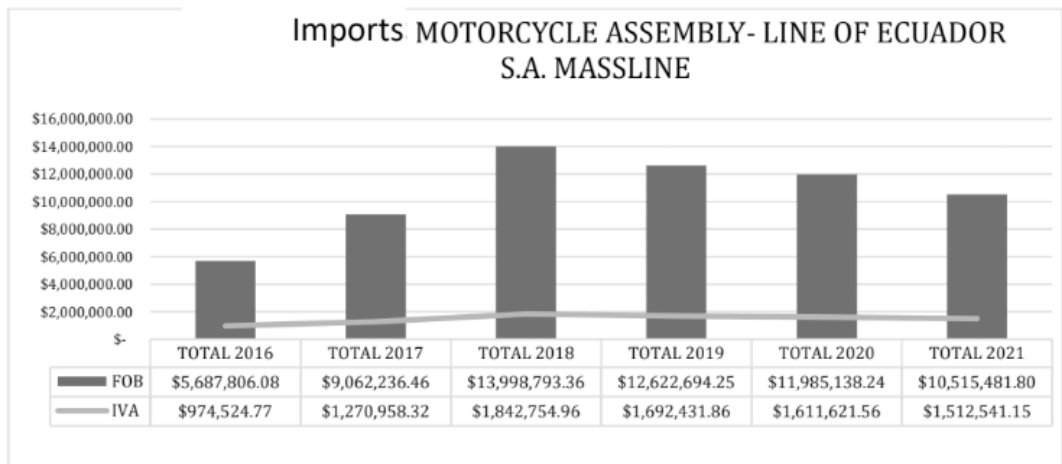
The beverage production manufacturing sector is led by the Cervecería Nacional corporation, with barley as the main imported product, an important input for brewing; as well as labels, club cans, malt for the brewing industry and flavorings, among other intermediate products for the final good. The main countries that supply products to Cervecería Nacional are: Germany, Chile,



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Source: National Customs Service of Ecuador.

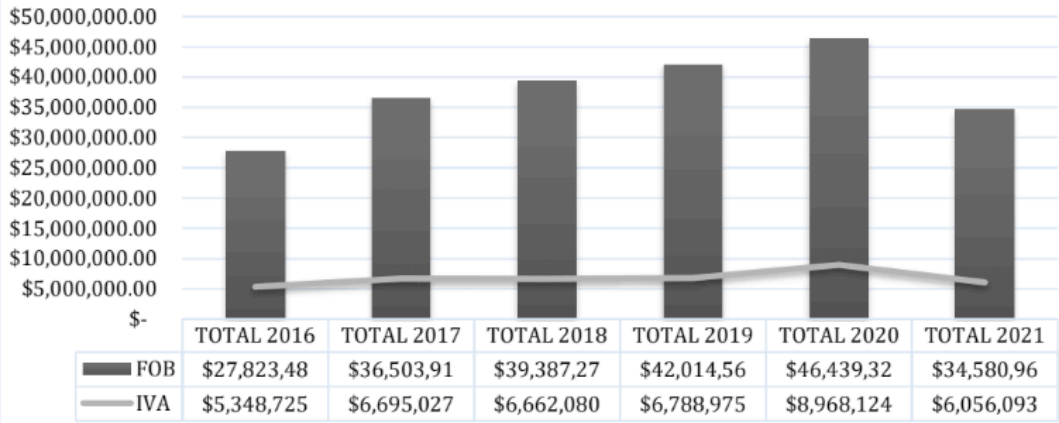


Prepared by the authors 2021  
Source: National Customs Service of Ecuador.



Prepared by the authors 2021  
Source: National Customs Service of Ecuador.

### IMPORTACIONES CERVECERIA NACIONAL CN S.A.



Prepared by the authors 2021

Source: National Customs Service of Ecuador.

Argentina, China, among other countries. In 2016, I imported a total of \$27,823,484.18 of products and technology used in this industry, likewise there was a 32% growth for 2017, as the elimination of safeguards is registered, a gradual increase is seen for subsequent years. Going to import in 2020 up to \$46,439,328, 11 representing a ratio of 19% in relation to VAT with respect to imported FOB, in the following year 2021 there is a considerable drop of -25.54%, this due to trade restrictions due to the pandemic. Registering a ratio with an average of 18% between the years studied of this company.

## **DISCUSSION**

According to Orozco (2010), he mentions that exports are very important for the country as long as they are in the long term since they are growth variables; However, imports must be considered as an important component in the development of a country as long as they are moderate, otherwise an unfavorable balance will be created for the countries.

For their part, Ordoñez & Hinojosa (2014), propose as a state policy to transform the productive matrix to generate added value and competitive conditions to diversify the export of other products and finished goods in the region and in the same way reduce the import of some elements.

Salazar, Morales and Martínez (2020), argue that the manufacturing industry is very important for GDP growth, they also argue that the greater the demand from other countries, this sector will grow and demand a greater workforce.

For Feraud and Ponce (2020), the development of the manufacturing industry is important and therefore they consider the increase in capital imports feasible, since they have contributed to the increase in the level of utility of the countries and as found results suggest to the governments

the implementation of strategic plans that encourage investment aimed at the creation of new industries.

## **CONCLUSIONS**

In the first instance, it can be confirmed that manufacturing industries are a fundamental engine for the economy of a country, especially Ecuador, the same one that has shown growth in this sector. On the other hand, the high import index leads to a deficit in the trade balance, especially when the vast majority of industries function as assemblers and in other cases their finished products have around 70% imported intermediate products, thus reducing growth. or evolution of the industrialization of the country.

The vehicle manufacturing industry is one of those that imports intermediate products the most, especially from the Asian continent, so as a state policy a clause should be implemented in which companies implement Ecuadorian products or a minimum percentage in the goods. Being thus a functional apparatus to dynamize the internal industry of production of intermediate goods for other sectors.



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