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Financial and commercial insertion of Ecuador in the international world: a historical and current analysis

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Ecuadorian economic history has been highly unstable, showing low returns in the commercial and financial area. In this context, the present work examines the antecedents related to the commercial and financial insertion of the Ecuadorian economic history. In the commercial aspect, primary products such as cocoa, bananas, shrimp and oil have been defined in the country. The appearance of cocoa in colonial times had a booming start, reporting exports of approximately one million pesos per year, between 1600 and 1615 (Iturralde, 2012). While, since 1910, banana exports have been registered with sales of bunches to the markets of Chile, Peru and the United States, thus becoming the country's main export product in the 1940s (Merchán, 2015). Later, in 1920, the black gold had about 10 years in embryonic operation and the oil fields were found in the Santa Elena Peninsula. Starting in 1968, several foreign oil companies were granted concessions to exploit crude oil in northeastern Ecuador (Pozo, 2011; Iturralde, 2012). In the financial aspect from colonial times to the present we can analyze various aspects such as: public spending, the adoption of a new currency, inflation, liquidity, and so on. Periodic expenses exceeded ordinary income, since bank loans would be used when cocoa did not reach estimated prices (Henderson, 1997). The adoption of the dollar as a solution to the 1999 crisis allowed the fiscal balance to enhance due to oil exports, causing a decrease in public debt (Bardomiano, 2014). Since 2002 the financial structure would reach; lower inflation, greater availability of credit to the private sector, lower financial intermediation margin and lower change in the real exchange rate (Tosoni, 2013). With the idea of changing this matrix, a vision of a relational and reciprocal community-type economy was changed in 2008, which welcomed the Sumak Kawsay principle, recognizing various forms of organization of production in the economy such as; public, private, mixed, family, domestic, autonomous, community, associative and cooperative companies (Ramírez et al., 2015).

In this sense, this research aims to analyze the insertion of Ecuadorian trade and financial system in the international world, under a qualitative approach. The logical historical method uses updated studies to delve into the opinions and perceptions of individuals about the Ecuadorian economic system, the same ones that, based on a synthetic analysis, allowed breaking down the most important historical events to reach their roots, simplifying their economic characteristics, social and political. Namely, the method cannot explain specific economic events if it is not based on general economic history. In addition, the nature of the historical analysis method respects the chronological order of events, facilitating the cause-effect interpretation of the economic phenomena that have occurred in some cases, with the idea of delving into the



previous and subsequent stages of an event, while allowing a comparative analysis of stages of economic events. In contrast, it is desired to identify the possible causes of a specific economic problem, based on various events throughout Ecuadorian economic history, even so, it does not offer an answer to a specific question but rather a vehicle to help readers to have a common understanding of a complex problem, with all its elements and relationships clearly visible at whatever level of detail is required.

From the results obtained in this study, in the commercial area, it is possible to deduce the dependence on exports of raw materials throughout the period studied. The lack of vision, planning, and the poor conception of Ecuadorians on how to introduce and market products to other countries, seems to be the evil of foreign trade (Merchán, 2015). However, this situation dates back to colonial times due to the country's lack of autonomy (Iturralde, 2012). An issue associated with the lack of planning and the independence of trade policies is the lack of State policies that last over time and that are not managed at the discretion and convenience of the rulers in power. Such is this deficiency throughout history, that even when Ecuador became independent, shipyards and textiles suffered great damage due to the change in political and jurisdictional regime (Iturralde, 2012). And that is precisely what continues to happen in the most current times, where, for example, import substitution industrialization policies are implemented and then dismantled, or taxes and/or barriers to imports are introduced and then they disappear without support any technical (Pozo, 2011; Iturralde & Dazza, 2014). Due to short-term policies, the country throughout its history has had to migrate and depending on oil and agricultural products such as cocoa and bananas, unfortunately these have always been determined by international prices since they are products little industrialized (Merchán, 2015). In this sense, the most contemporary works agree on the importance of changing the productive matrix that generates greater value added to production goods in competitive conditions, and that at the same time provides less dependence on foreign products (Molina & Vélez, 2016; Nagao, 2016).

As in trade, in the financial sector throughout economic history, the economic problems that have resulted in past crises have been due to the high dependence on oil revenues and the ever-increasing public debt, this is recognized by Bardomiano (2014); Onur & Togay (2014), who mention that these problems are more than derivations of a central problem, mismanagement, which has been the root of political instability problems. Likewise, in the face of crises, one of the alternatives with better indicators was the adoption of the dollar, which for Tosoni (2013); Onur & Togay (2014) were key to the recovery of the Ecuadorian economy, whereas of 2002 the improvement of its economic indicators would be noted. Another of the biggest problems that have affected the financial system was the global crisis of 2008, which left the country with a high level of indebtedness, which continues to increase to this day (Girón, 2015). To counteract the negative effects of economic crises, the solution would be an economic integration that prevents the vulnerability of the weakest countries from leading them to imminent indebtedness, according to Calvento (2015); Nudelsman (2013), this South-South Cooperation would allow improving capacities and strengthening international aid, where countries can achieve a higher level of development, forming stronger commercial nuclei, avoiding leverage in financial institutions and excessive financial intermediation. The Ecuadorian system, in its attempt to motivate a more agile productive matrix, would adopt a community ideology, the Sumak Kawsay, according to Ramírez et al. (2015), the core of this development, would only promote the association and solidarity of the enterprises, it was clear that the problem continued to be our lack of development in the manufacturing sector that allows obtaining the added value and a higher income that changed structurally the productive matrix from a primary to an industrial one.

In conclusion, Ecuador throughout its history has maintained a commercial policy with no future horizon, with a primary export modality as it was its reality for almost two centuries, exporting large quantities of gold while it belonged to the Colony and thus a century later in the textiles. During the Republican life, it focused on the production of cocoa, bananas and finally, oil. However, Ecuador has diversified its production to a certain extent, basically in terms of the production of shrimp, flowers, tropical fruits, and other products, which has satisfied the demand both locally and internationally. The country's biodiversity allows it to offer high-quality products, with the application of good production practices, post-harvest handling and marketing with adequate levels of economic profitability, however, the products do not present greater differentiation characteristics, since their degree of industrialization is low, which prevents them from having higher



incomes. To nullify the negative effects of the commercial sector, the use of a less restrictive tariff policy is proposed with the objective that trade barriers do not aggravate international commercial actions, in the same way, to maintain fair trade, use of systems of consultation of import records and prices with the help of production associations and specialized international entities.

Regarding the historical analysis of the financial sector, it is concluded that throughout economic history there have been economic problems in this sector, due to past crises and to the fact that the country has depended a lot on the income of exporting primary products and in the dependence on the public debt that is increasingly growing, since this result is reinforced in a dollarized economy, where the main source of foreign exchange is exports. The concentration of exports in a few markets puts the country at risk when they are reduced as a result of a potential crisis, since market prices are not fixed, causing economic inconveniences in terms of the sale of exportable products. In this sense, the use of a contractionary fiscal policy is suggested in order to reduce the budget deficit and avoid an increase in indebtedness. Similarly, to avoid speculation, the Central Bank of Ecuador must use an efficient and transparent payment mechanism that generates trust and credibility among the different economic agents.