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FACULTAD DE ECONOMÍA Y CIENCIAS EMPRESARIALES

TITULO: COMPARATIVE ANALYSIS OF CUSTOMS REGULATIONS: EUROPEAN UNION AND ANDEAN COMMUNITY OF NATIONS. OPPORTUNITIES FOR ECUADOR

TRABAJO DE TITULACIÓN QUE SE PRESENTA COMO REQUISITO PREVIO A OPTAR EL GRADO DE INGENIERA EN CIENCIAS EMPRESARIALES

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Abstract

Due to internal and external factors international trade has been affected by generating profits for some countries but limiting others. Nowadays, global negotiations are mainly done by regional integrations like the European Union and the Andean Community of Nations. The number of regional agreements has increased causing the Spaghetti Bowl Effect.

In the context of international commerce, there are two types of blocks: building and stumbling blocks. The first one promotes multilateral negotiations and the other restricts trade between countries.

International trade has allowed a greater movement of goods and services where efficient and effective custom regulations are necessary. The custom regulations can be generated or limited commerce.

The research analyzes the importance of customs regulations over the international trade. It focuses on the custom measures applied by the European Union and the Andean Community of Nations.

The commerce between blocks can increase or decrease by their custom regulations. Therefore, the research will determined if the regulations applied on the European Union and the Andean Community of Nations are building or stumbling blocks.

By defining the type of block, it will be faced the opportunities and threats that Ecuador have in the Andean Community signing the multiparty agreement with the European Union.

Keywords: Custom Regulation, European Union, Andean Community of Nations, Ecuador, Trade.

Introduction

International regulations have improved the efficiency and effectiveness of trade between nations. The implementation or restriction of certain regulation can increase or decrease the amount of products or services; therefore, the production can be affected.

Custom regulations over regional integrations can determined the growth of the countries members; due to the fact that the regulations can permit or limit the trade inside and outside the blocks (Laborde & Velga, 2010).

The European Union and the Andean Community of Nations have applied certain regulations taking into consideration the type of economies of the countries members.

The application of the custom regulations affects directly the increase or decrease on the imports and exports of the block. According to Bhagwati (1968) there are building and stumbling blocks by identifying if their regulations generate or stops trade.

Applying effective custom regulations will allow the blocks a growth on each country. It is important for importers and exporters to know the opportunities offered by customs regulations from the country of origin to the destination country.

For traders it is useful to know the time that customs regulations allow them to withdraw merchandise in the destination country (Jayakumar, Kannan, & Anbalagan, 2014).

The regulations applied in Ecuador can allow the national production keep growing or stop it. It is because competitiveness can increase if the correct custom regulations are implemented, the products for exportation will increase. (Carrasquilla & Rivero, 2015).

Ecuador is negotiating a multiparty agreement with the European Union which can generate future agreements with other countries.

Literature Review

International Trade

International Trade allows a country to have more goods or services. The more favorable the terms of trade for a country, the greater the benefit that will result in international trade (Vijayasri, 2013).

The international economy seeks to deepen relations between countries through instruments that allow a special treatment with any other country. It is through common goals' combination, such as economic growth, social development, or peace in a given area pursued. Integration is gradual, and implemented with agreements or free trade areas.

The importance of international relations in the commercial, political or cultural field has reached globally. Nowadays, it cannot be spoken only of trade in goods but of integration programs.

Spaghetti Bowl

The integration of several countries is a complex process, involving social, economic, political and legal implications. Economic integration is defined as a process where countries eliminate certain economic barriers between them (Bhagwati & Krueger, 1995). The stages of integration are defined by economic, social and political boundaries as well as the commitments between the countries.

The most basic form of integration constitutes Preferential Trade Arrangements (PTA). It involves the grant by a country of certain commercial advantages for products from another country or group of countries. They usually have asymmetric natures which are countries with different levels of development (Bhagwati, 1997).

Since 1990, the number of Regional Trade Agreements (RTAs) has followed an upward trend and nowadays there are more than 200 integration agreements. In view of this proliferation, the spaghetti bowl was originated by Bhagwati (Crawford & Fiorentino, 2015).

Bhagwati named Spaghetti Bowl Effect to the map complex formed by the lines connecting the countries that have signed regional agreements between them (Bhagwati, 1995). He highlights the trade division due to Regional Trade Agreements and the Free Trade Agreements which stops trade rather than make it grow.

The problem comes when an agreement is made, the WTO cannot intervene every time and with this the Spaghetti Bowl is form.

According to Bhagwati (Bhagwati & Panagariya, 1996) in international trade there are two types of blocks which are building and stumbling blocks. The first one promotes multilateral negotiations and on the other hand, the stumbling blocks are the ones that stop it. The dynamics of the PTAs is affected for both situations because they accelerate or brake negotiations between countries (Baldwin & Seghezza, 2007).

Regional Integration

The integration process has different stages and can be carried out in different ways. First, there is Tariff Preferences System. Second, there are Free

Trade Zones. Third, there are Customs Unions. And finally, there are Economic Unions.

The Free Trade Zone is an area formed by two or more countries over which the customs and trade barriers are abolished gradually or immediately among themselves. At this stage on the integration process, countries guarantee the free movement of goods produced within the associated area. So, it is essential to take into account this element for integration (Tello, 2004).

Regional integration involves some privileges within the area. The main difference with the other stages of integration is by establishing common tariffs within and outside the region.

By establishing common policies among member countries into several areas alleviates the risks that generate situations of uncertainty in the global economy. Therefore, it is important that the signed agreements are respected and that does not tend to be favored some countries more than others (Mirus & Rylska, 2011).

In order to get a fair trade between all countries the creation of an international organization which regulates world trade operations was necessary. For that reason, the General Agreement on Tariffs and Trade (GATT) was established in 1947 (World Trade Organization, 2016).

In 1995, The World Trade Organization (WTO) is presented as an entity that establishes the principles for regional integration. In the WTO criteria equal and non-discriminatory attitudes between nations are established as general principles.

The Most Favoured Nation (MFN) is the first principle of the WTO. According to the WTO, a country cannot favor with an advantage of any kind to one country and does not give the same benefit to another one. Offering a benefit only to a certain country that is not under a free trade agreement is a violation of the first principle of the WTO.

The national treatment principle is the second WTO decree for fair trade between countries. None of the economic agents of a member country may be treated differentially in a foreign country against national operators. In general it can be said that the imposition of tariffs or trade restrictions or discrimination of economic agents because of their nationality, cannot be used as an instrument of trade policy.

The WTO sets customs regulations that allowed greater control of international trade without missing the two principles of the organization.

In regard to the customs aspects, the WTO has dealt with numerous issues that are related to trade facilitation. Over global trade there are obstacles to trade facilitation such as customs procedures, non-tariff barriers and scattered national regulations that stops the international flow of products.

Customs regulations are general rules established by WTO and committed to each country member. On the Uruguay Round the tariff concessions were established under trade negotiations at a global level.

The concessions contain the number of tariff heading, the description of the products, the duty rate, and the current concession established negotiator rights.

The list of tariff concessions follow the structure of the Harmonized System which contains about 5.000 items with a subdivision driven by the needs of countries in terms of administrative and statistical requirements (Milner, Morrissey, & Zgovu, 2005).

The ultimate goal of customs regulations are trade facilitation for countries and international growth. In short, facilitating trade is to make commercial transactions more efficient by streamlining procedures, documentation and information flows.

Trade Facilitation can be considered a minor issue. However, when it is quantified a big issue is arrived. According to Rubiato (2006) on average, in each commercial transaction there are around 27 and 30 intermediators. At least 40 documents are needed with more than 200 data, of which between 60% and 70% should be repeated. Considering the operative procedure, it consumes between 6% and 15% of product value and 40% of the time of the transaction.

For that reason, in July 2004 the WTO formally agreed to launch negotiations on trade facilitation. The first objective of trade facilitation is expediting the movement, customs clearance and circulation of goods, including those in transit. Another goal is enhancing technical assistance and support for capacity building in the goods. And make provisions for effective cooperation between customs and other authorities on trade facilitation and compliance with customs procedures.

Custom Regulation

The great movement of products is a result of globalization and market demands that grows the need to facilitate the operations over International trade. It is precisely the increase in international business which leads to inquire regarding customs matters.

Customs regulations are systems that enable fixation and control of the operation of the customs office where the goods enter and leave a country. It is responsible for collecting taxes and duties related to export and import operations incurred in the country (Mora, 2007).

Customs regulations play an important factor since they allow certain procedures with other products of foreign origin. The regulations let knowing the payment of fees for products and maintain a better order since it contains terminology specified for each product type. The custom formalities need to be fulfilled in order to identify the output and input of the goods.

The relevance of customs regulations is tied to the optimization of process which reduces internal costs and increases the ability to facilitate trade and generate income at the border.

The formation of a regional integration presupposes having internal free movement for goods originating in the States Parties engaged in the process.

The intervention of the Customs regulations is essential in the process of economic integration, with a leading role in the standardization of control methods in the labor coexistence in the different customs, actions of cooperation and administrative assistance. All it is aimed at the main objective of getting the result of the application of customs legislation is uniform (Ortiz & Pinho, 2015).

European Union

At the beginning, the EU had a distinctly economic character. Over time it has expanded its powers and now covers more aspects such as Foreign Policy and Common Security, Policy of Mobility of Persons, Justice and Home Affairs (European Union, 2016).

With more than 370 million inhabitants and a high degree of wealth turns together with USA and Japan the triad of great powers (Laborde & Velga, 2010). The triad accounts for more than 80% of the Gross Domestic Product (GDP) worldwide; it controls most of world exports and imports and around two thirds of investments.

The European Union (EU) has 7% of the world's population. The EU produces a third of world trade and 35% of direct investment capital originates inside the European Union. Also, EU is the largest exporter and importer in the world in agricultural products and a major creditor of many poor countries (Perrera, 2013).

In the field of international trade EU encourages specialization (Bartels, 2007). Each European region can specialize in those sectors where it is most gifted. This will contribute to greater and better quality production, and increased productivity. So the administrative and bureaucratic costs are reduced. Customs regulations play an important role as they help to facilitate trade.

The European Union is an area of regional integration that favors cooperation agreements between member countries. The single currency eliminates exchange rate risks. Monetary union let companies, wherever it will be in the euro zone, decrease the fear of losing benefits for the effect of currency devaluations.

The novelty about the European Union compared to other blocks is that the Member States give up some of their sovereignty in favor of European Conformity at its center which has given its own powers, independently of the Member States. This integration model serves as an example for other trading blocks (Phelan, 2015).

The customs union is an essential element for the proper functioning of the European Union. This is because once the customs formalities in one country are met, the goods can circulate freely within the EU based on the principle that all Member States apply the same rules in terms of income and protection external borders.

Andean Community of Nations

The Andean Community (CAN) is a sub – regional organization constituted by Bolivia, Colombia, Ecuador and Peru. This entity has dedicated its efforts to improve the standard of living of its people through economic and social cooperation (Blanco, 2013).

With a total population of 103’061.217 inhabitants and an average GDP per capita of $3.401 per year until 2013, the CAN is under the guidance of a competitive approach that seeks to close the gaps in economic and social terms of its population (Andean Community of Nations, 2014).

At the beginning, the Andean Group gives great impulse to the integration process. The 70s was characterized as a stage of development, where the Group conducted a systematic work of the Commission and the Board of the Cartagena Agreement to implement the treaty recently signed in different action fields of the integration process.

However, at the end of the 70s and early 80s it was a period of hard stagnation and decline of commitments. This impact is evidenced by the withdrawal of Chile in 1976 due to disagreements between the government of Augusto Pinochet and the Andean Group.

By 1989, contrary to the trend presented so far occurred a profound renewal in the Andean integration as a result of two variations of context. On one hand, the countries shift to the model of regionalism inward to open regionalism. On the other hand, the optimism of the Andean economies was experiencing. It led to unanimous interest of Andean members into the integrationist reins.

However, the mid-decade already beginning to glimpse the first inconsistencies in the formulation and compliance with business objectives. These not only would bring breaches, but intra and bi-national conflicts.

In 1995, despite the absence of Peru the member countries were able to adopt a customs union, which is imperfect by the various exceptions that were granted over the implementation.

The Andean countries have had considerable lack of commitment to the process of trade integration, which has been greatly affected by the economic and political situation of each country, in addition to the own internal weaknesses.

With the intention of involving Peru, the five countries were committed to achieving a Common External tariff equivalent to 62% of the tariff by January

2004. However, once again the application was postponed until May 2005 because of the difficulty that countries had to implement.

Trade is concentrated more on the larger countries. However, each country has a particular behavior against intra-regional trade, which hampered the objectives initially proposed.

On one hand, Peru and Colombia, promote a liberal model and seek to increase its relations with the world getting agreements that promote free trade with the United States and the European Union.

On the other hand, you can highlight the recent application of safeguards by Ecuador to its partners in the CAN, Peru and Colombia. The main reasons for the application of this measure are the problems on the balance of trade by the international crisis.

Since the creation of the Andean Community in 1969, intra trade has maintained an upward trend, which is mainly accentuated from the nineties.

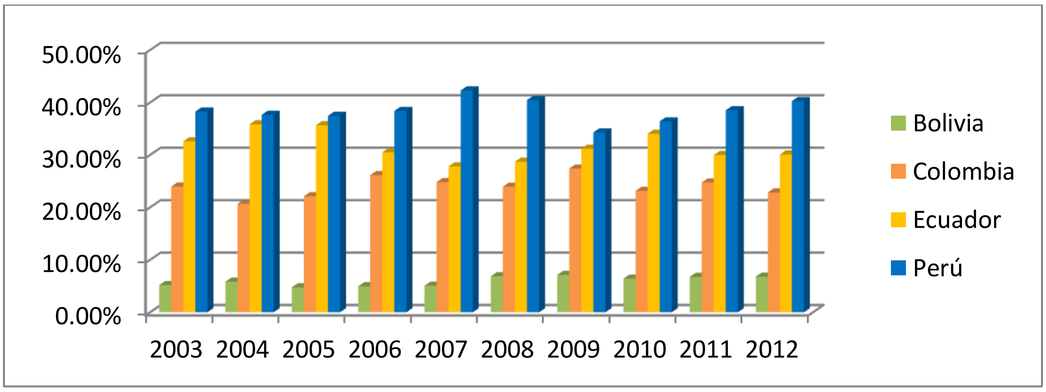
In the period from 1973 to 1974, the event which had the greatest impact on trade was the entry of Venezuela. It generated a growth of 82.38% in the amount of intra-CAN exports and 71.72% in intra-CAN imports which has been the highest level of the amount traded annually. It reflects the importance of this accession and the incidence of departure from that country of the block.

After leaving Chile, trade increased in subsequent years through the adoption of Free Trade Area in 1993. Exports and imports grew between 16.87% and 21.19% the following year.

However, after implementing the Common External Tariff trade growth is closely linked to primary goods, especially fossil fuels and minerals. Mainly internal factors associated with consumption of those products and to a lesser extent related to international variation in the price of the same.

There are major differences between the Andean countries when the size of their economies is taking into consideration. Bolivia holds a smaller share than other countries in foreign trade with Andean countries. Over the years reviewed, the shares have had some variations but Peru has had greater participation on the exportation of products.

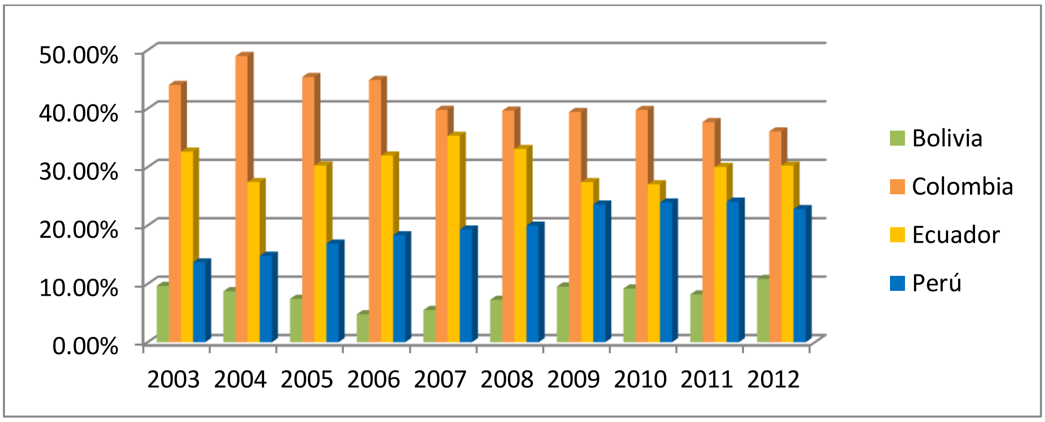
Graphic 1: Participation in Exports of CAN Member Countries



Elaborated by the Author. Source: Andean Community General Secretariat (2013)

The imports are also necessary. In this case the country who imports more is Colombia; even though, it has decreased over the last years. However, Peru has increased every year the amount of products.

Graphic 2: Participation on Imports of CAN Member Countries



Elaborated by the Author. Source: Andean Community General Secretariat (2013)

The countries of the Andean Community have shown no evidence of strength of goods for exportation with high added value in markets which are not protected by discriminatory trade agreements. However, the Community does not show a comparative disadvantage.

In any case, events that have happened over the years show that the CAN is far away from having a single voice in its member countries and lacks a leader that guides the process.

For example, the measures applied for Ecuador to the member countries. It covered 627 subheadings, equivalent to 8.7% of a total universe of 7,227 subheadings (Paz, 2015). Even this problem was further, when the request was not authorized by the Andean Community and Ecuador threatened to leave the block if the position was maintained. This event demonstrated the institutional weakness and the moment of crisis on which the CAN is emerged into.

Methodology

The paper is based on a qualitative approach. The type of research applied will be a descriptive and comparative research providing real information from European Union (EU) and Andean Community of Nations (CAN). The research is considered descriptive because of the analysis of the customs regulations of the EU and the CAN.

As well, the research will compare the custom regulations of both blocks of trade. The source of data will be taken from the official web page of European Union (2016) and the Andean Community of Nations (2016). Additionally, an analytical and critical research will be performed with the additional sources taken into account in the research.

In order to find possible scenarios in which Ecuador has trade opportunities, the research will compare the customs regulations of the European Union and the Andean Community of Nations.

In order to achieve the main objective, the research will describe the EU and the CAN custom regulations. It will be necessary to explore ways in which customs regulations allows or limit trade in EU and CAN.

By making this, the research will analyze trade opportunities that have Ecuador according to the customs regulations of the EU and the CAN. The possible scenarios will be analyzed by taking into account the multiparty agreement that the EU has with Colombia and Peru since 2013.

The research will be done by comparing the limits and scopes of the custom regulation of each block.

Analysis of Result

First, the research will analyze the custom regulations of the European Union and then it will be compared with the Andean Community of Nations.

In 1992, the Community Customs Code of the European Union entered into force in the Official Journal (European Union, 2014). The application of customs procedures and destinations is based on uniformed regulations. On 23 July 1987 the tariff and statistical nomenclature of the Customs Union was presented. Based on the nomenclature, the Integrated Tariff Commission of the European Union will be called TARIC.

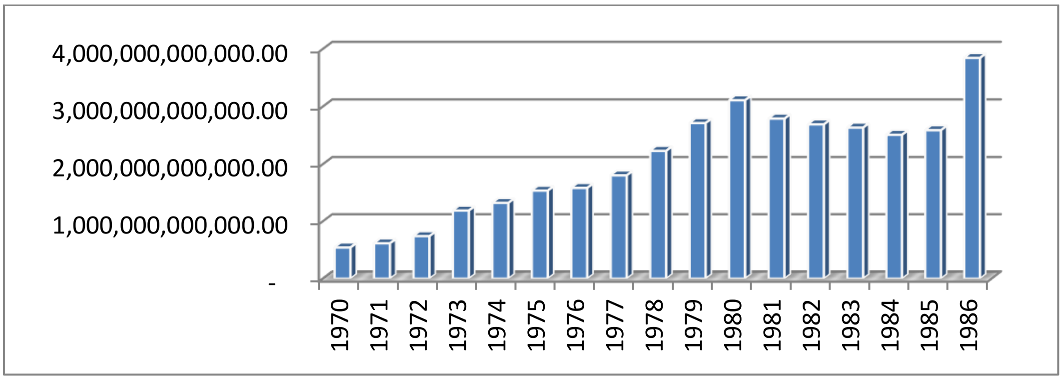
Customs regulations in the European Union are made through systems, laws and codes. The regulations are found in the Community Customs Code governing the customs relations of the 27 member countries. In custom matters countries members constitute a single territory, which means that EU become a Custom Union.

The Custom Union is characterized by the liberalization of reciprocal trade in all goods produced by the partners. As well, it adopted a common tariff policy in relation to the rest of the world.

The EU has grown economically since they have managed to boost trade between member countries. The application of a common tariff policy has helped to increase the monetary value of the economic activity of all the member countries.

Graphic 3 show the increase of the GDP since 1970 to 1986 which is the period that TARIC was not applied. The GDP of the Union was around $543.042 million and before the TARIC was applied it was $3 billion

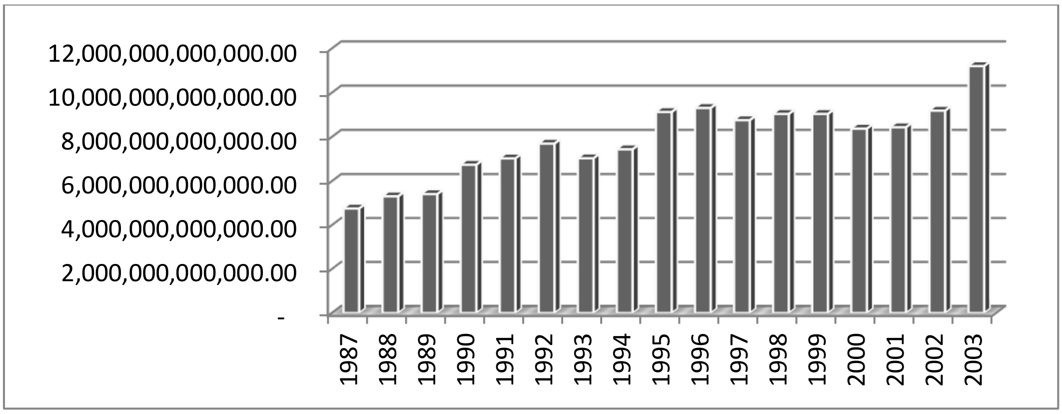
Graphic 3: European Union GDP since 1970 - 1986



Elaborated by the Author. Source: World Development Indicators (2014)

TARIC was applied since 1987 in the European Union. The implementation of the regulation makes some changes over the economic growth. At the beginning, the GDP was around $4 billion and 16 years later it was $11 billion.

Graphic 4: European Union GDP since 1970 - 1986



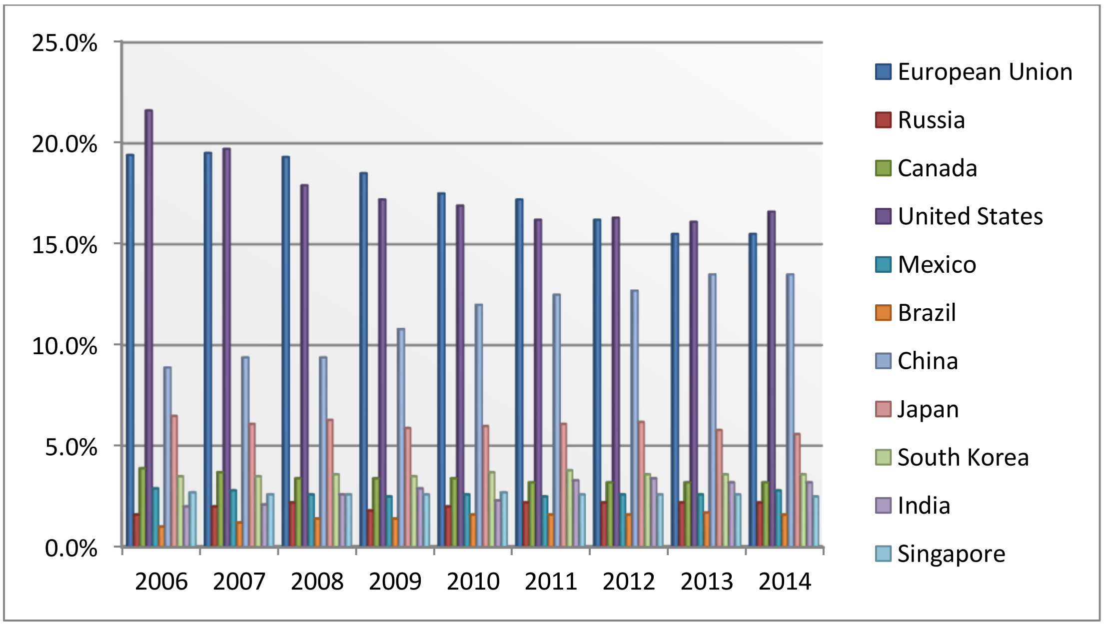
Elaborated by the Author. Source: World Development Indicators (2014)

The Community Customs Code allows the Customs Union efficiency, effectiveness and specially transparency. The code contains the customs provisions and the basic definitions for the exchange of products.

TARIC is applied to imported products in the European Union. In the TARIC are the provisions of customs tariffs on both, imports and exports. It has daily updated versions. TARIC's goal is the collection and publication of information relating to statistics of imports and exports of the EU.

On Graphics 5 and 6 can be seen the important participation of European Union over the world with their imports and exports. On the imports situation, the EU and United States of America (USA) had had similar percentage of their participation around the world.

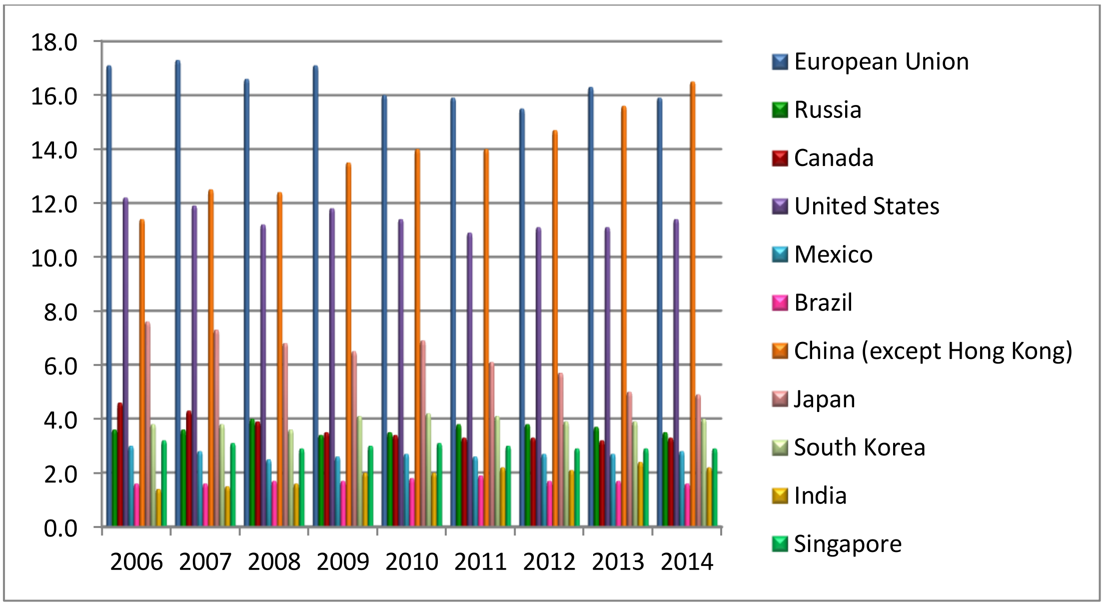
Graphic 5: Share of National Imports in World Imports (%)



Elaborated by the Author. Source: European Statistics (2015)

And, in the case of the exports in Graphic 6, it has tried to have a constant participation but China, with exception of Hong Kong, has increased their exports over the years. It caused the decrease of exports for USA.

Graphic 6: Share of National Exports in World Exports (%)



Elaborated by the Author. Source: European Statistics (2015)

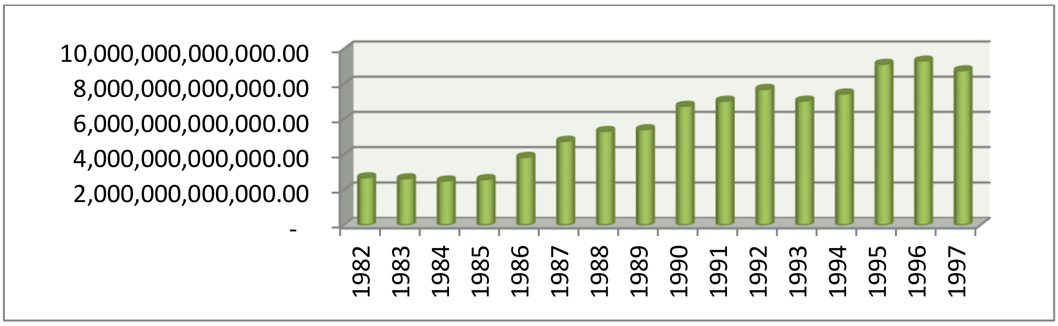
The nomenclature of goods is called by the Regulation as Combined Nomenclature (CN). Both combined nomenclatures such as TARIC have subheadings.

According to regulations, the customs declarations have a ten digit numerical code. The first six numbers correspond to the Harmonized System with headings and subheadings. The following two numbers there are subheadings of the CN. And finally, the last two numbers are the TARIC subheadings.

The custom regulations due to the implementation of TARIC have been simplified because of the international trade expansion. The standardization and reduction of processes decrease the risk of making business globally. It has been possible due to the application of the Kyoto Convention principles.

The Kyoto Convention was applied since 1997 in the European Union. Graphic 7 show the increase of the GDP before the Kyoto Convention was introduced. The GDP of the Union was around \$2 billion and a year before the Kyoto Convention was applied it was \$8 billion. Over 16 years, the GDP only grew \$6 billion.

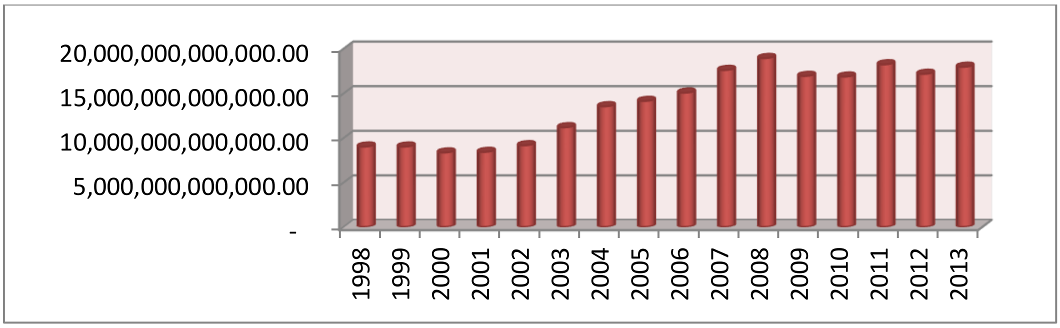
Graphic 7: European Union GDP since 1982 – 1997



Elaborated by the Author. Source: World Development Indicators (2014)

It shows that the economy of the Union increases when the Kyoto Protocol was applied. In Graphic 8, after TARIC was implemented in the European Union the GDP was around \$9 billion. Over 16 years the GDP increased reaching \$17 billion.

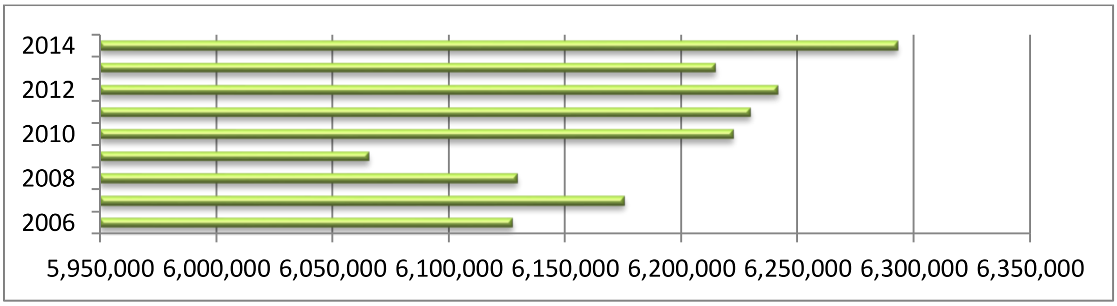
Graphic 8: European Union GDP since 1998 - 2013



Elaborated by the Author. Source: World Development Indicators (2014)

On March 2003, the European Union begins the implementation of the Kyoto Convention with which performs accession Protocol known Amendments Kyoto Convention. It helps SMEs to participate in international trade. In Graphic 9, it is showed the fluctuation in the number of enterprises. The European Union went through a major crisis since 2008. But, since 2010 the number of enterprises has increased.

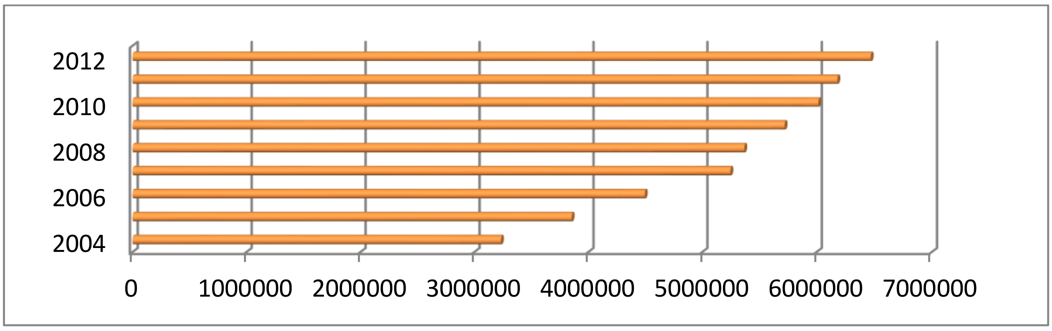
Graphic 9: Number of enterprises



Elaborated by the Author. Source: European Statistics (2015)

As well, the Kyoto Convention improves the performance of customs administrators, improves efficiency, promotes economic competitively and boosts investments. In Graphic 10, it is showed the increase of investment every year reaching in 2012 a total of 6.470 million of euros.

Graphic 10: Foreign Direct Investment

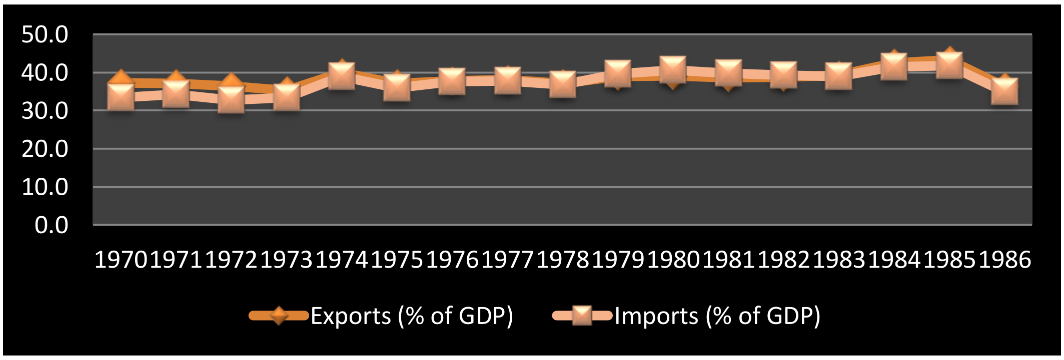


Elaborated by the Author. Source: European Statistics (2015)

In July 2009, the Community Customs Code began using the Economic Operator Registration and Identification (EROIT) due to measures introduced by the Security Amendment. The number EROIT is a common number that identifies only economic operators, natural and legal persons in the EU.

Imports and exports are an important part of the customs regulations. Before TARIC was applied the growth is little over the imports and exports. The imports over the EU have fluctuations over the years due to the crisis in Europe. In general terms, the imports of UE have increased. The Union reached the exports account for the 37.3% of the GDP and the imports were 33.36%. In 16 years the exports decreased 1% and the imports only increased 1.6%.

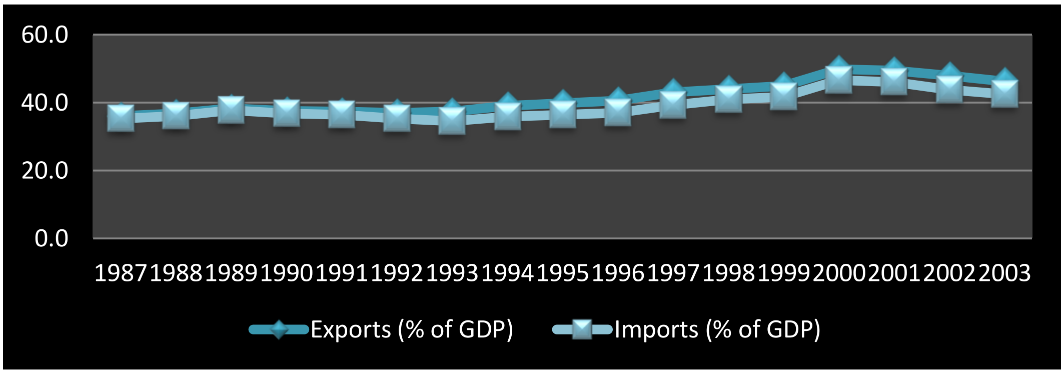
Graphic 11: European Union Exports and Imports of Goods and Services 1970 - 1986 (% of GDP)



Elaborated by the Author. Source: World Development Indicators (2014)

With the application of TARIC, both measures changed over the years. After applying TARIC, the Union reached the exports account for the 36% of the GDP and the imports were 35.19%. In a period of 16 years the exports increased 10.2% and the imports increased 7.3%.

Graphic 12: European Union Exports and Imports of Goods and Services 1986 - 2003 (% of GDP)



Elaborated by the Author. Source: World Development Indicators (2014)

In Graphic 12 the exports have a similar movement as the imports. Comparing imports and exports, the last ones have bigger amount which is good for the Union.

Both, imports and exports products in the Community customs territory must have an entry summary declaration. They remain under the control of Customs for a maximum period of 45 days.

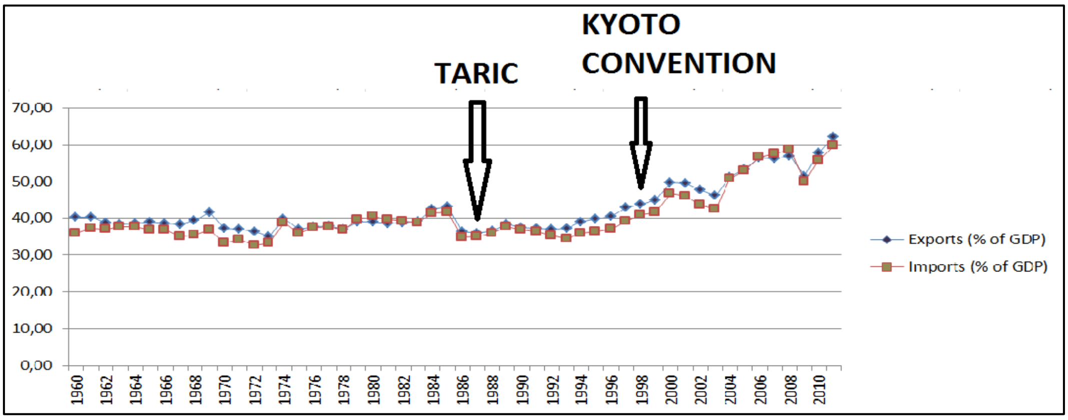
The customs classifies imported products assigning them a customs. If the goods have met all the requirements as Non-Tariff Trade Measures[1], the Value Added Tax (VAT)[2] and Customs Duties[3] will be in free circulation.

[1] Non – Tariff Measures are government regulations that obstruct the free merchandise by putting entry requirements to products or services.

[2] Value Added Tax (VAT) is a tax that loads the value of the product or service for the transfer of ownership at all stages of production.

[3] Custom Duties are all taxes, levies, fees and all payment fixed or required on the importation or exportation of goods or services.

Graphic 13: European Union Historical Exports and Imports of Goods and Services



Elaborated by the Author. Source: World Development Indicators (2014)

Since the implementation of TARIC, customs markets have opened up to other countries increasing their exports and thus decreasing their imports. In the mid-80s, European countries begin to recover by increasing the growth rate. In the case of Ireland it has a growth rate close to 4% annual GDP, while Austria, Finland and Italy do not reach 3%. Next 2.5% average increases in France and Portugal are located, while Belgium, Spain, Holland Germany, Greece and Sweden reach 2%.

Most countries from 1991 go into recession. The context turns gray at the beginning of the last decade of the century, with relevant external events, but also with no causal relationship with economic dynamics, as the fall of the Berlin Wall and the extreme tension generated in the Middle East. Growth slowed again.

Despite the social and economic crisis the EU economy continues to maintain a growth indicating it might be assume that the customs regulations help the block to increase in exports.

It can be said that customs regulations of the European Union have created trade within and outside the Union. The customs regulations have allowed better customs system that has allowed the mobilization of goods and services effectively and efficiently.

Continuing with the analysis, the CAN creates a strategic design for the unification of the community for the integration problems they have had over the years. The strategy comprises four main areas: deepening trade integration, development and competitiveness, new themes that include the comparative and competitive advantages of the Andean and the inclusion of a social agenda, in addition to political cooperation.

The Cartagena Agreement, the maximum Andean ordinance process CAN integration focuses on strengthening EU institutions, to give the Andean Community of major instruments to improve the free trade area and customs union.

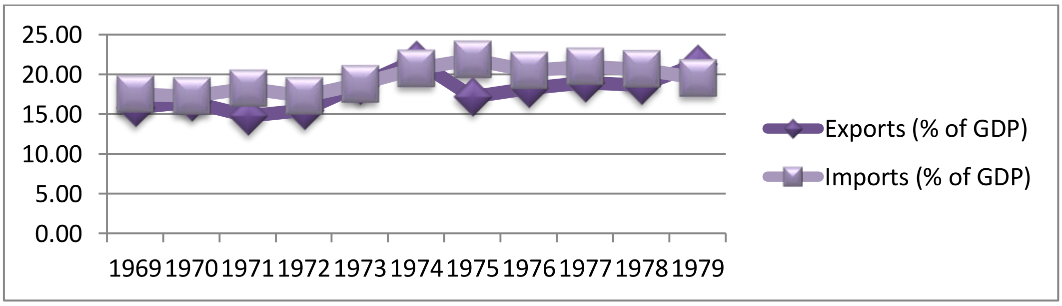
One way to strengthen the community is the establishment of the Andean Integration System, which aims to enable effective coordination with each other to deepen Andean sub regional integration, promote their external projection and strengthen actions related to the integration process.

The Andean Community has accepted a number of legal instruments to enable Customs administrations of member countries to develop customs services in both intra-Community trade and outside the block. Trade is carried out under a common procedure and harmonized in line with international instruments and standards that exist on the subject. It aims at facilitating foreign trade and increased efficiency of the measures taken to comply with legislation and customs control.

The common nomenclature NANDINA helps identification and organization of goods, foreign trade statistics and trade policy scales of the Andean Community regarding the import and export of products. The foreign trade essential tool that provides the Andean Community is the Common Nomenclature NANDINA. It has facilitated the task of importers, exporters, producers, transporters and customs administrators.

NANDINA was applied since 1988. The Community was created in 1969 where the exports account for the 15.81% of the GDP and the imports were 17.48%. In Graphic 14, it is showed the behavior of the measures in 10 years. The exports increased 5.45% and the imports only increased 2.05%.

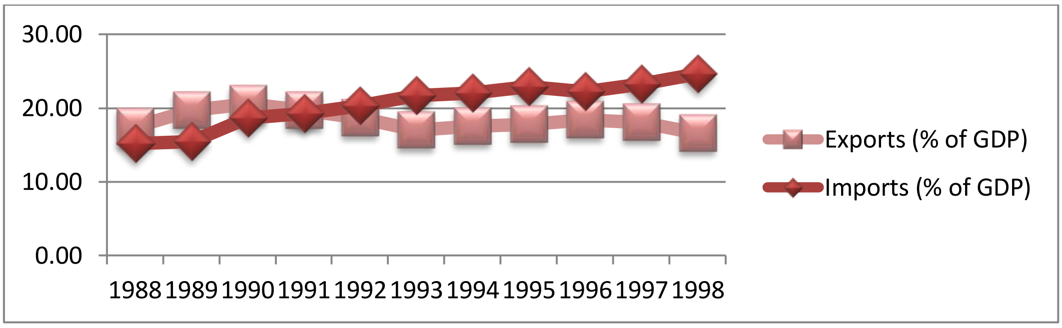
Graphic 14: CAN Exports and Imports of Goods and Services 1969 - 1979 (% of GDP)



Elaborated by the Author. Source: World Development Indicators (2014)

In Graphic 15 the movement of imports and exports are showed since 1988 when NANDINA was applied. The exports account for 17.41% and the imports have 15.16% of the GDP. Analyzing the behavior over 10 years, the exports were negative because it decreased 0.80%. However, the imports increased 9.44% of the GDP.

Graphic 15: CAN Exports and Imports of Goods and Services 1988 - 1998 (% of GDP)

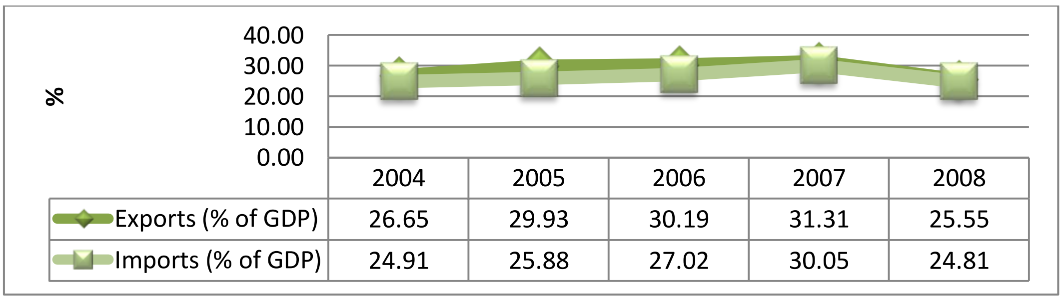


Elaborated by the Author. Source: World Development Indicators (2014)

However, the Andean Integration System has created different methods of control that have fallen into the bureaucracy. By creating several institutions, the processes are involved in a system that does not allow the effective and efficient mobilization of goods.

Andean rules on customs procedures allow shortening procedures and formalities in the entry and exit of goods. The establishment of a single document adopted in the Andean region is the Single Customs Document (SCD).

Graphic 16: CAN Exports and Imports of Goods and Services 2004 – 2008 (% of GDP)

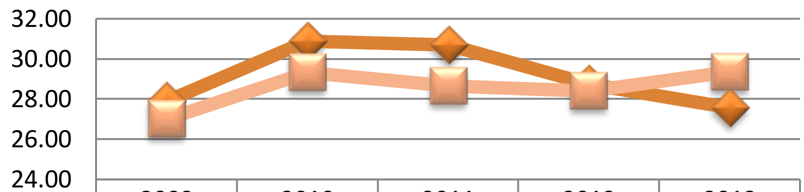


	2004	2005	2006	2007	2008
Exports (% of GDP)	26.65	29.93	30.19	31.31	25.55
Imports (% of GDP)	24.91	25.88	27.02	30.05	24.81

Elaborated by the Author. Source: World Development Indicators (2014)

On Graphic 16, it is showed that the exports reached 26.65% and the imports 24.91% of the GDP. In 2008, before the implementation of Single Custom Document the exports account for 25.55% of the GDP and the imports were 24.81%. In 4 years the exports decreased 1.10% and the imports also decreased but only 0.10%

Graphic 17: CAN Exports and Imports of Goods and Services 2009 – 2013 (% of GDP)

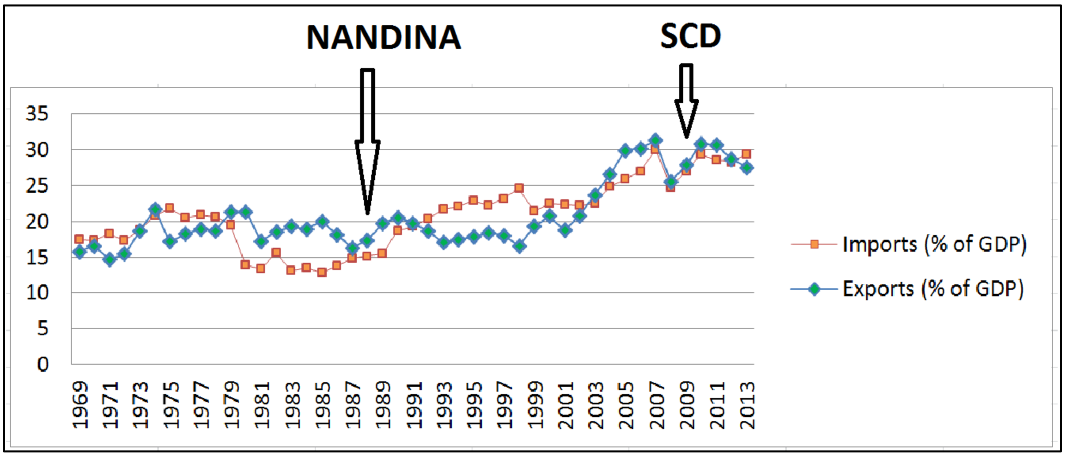


	2009	2010	2011	2012	2013
Exports (% of GDP)	27.89	30.90	30.68	28.73	27.56
Imports (% of GDP)	26.99	29.32	28.64	28.39	29.35

Elaborated by the Author. Source: World Development Indicators (2014)

When the Single Custom Document was applied in 2009, the exports were 27.89% and the imports 26.99% of the GDP. In 2013, the exports account for 27.56% of the GDP and the imports reached 29.35%. After 4 years of the implementation of the SCD, the exports increased in comparison but it has a negative value of 0.34% and the imports increased 2.36%.

Graphic 18: CAN Historical Imports and Exports of Goods and Services



Elaborated by the Author. Source: World Development Indicators (2014)

Since Graphic 14 until 18, it is showed the movement of imports and exports with and without the applications of the custom regulation as NANDINA and Single Custom Document. The increase of the imports and exports is really short because the measures do not have a big impact over the variables.

In the 80 countries faced international economic crisis, natural disasters and losses caused by falling prices of export products. Members were able to overcome social and political conflicts triggered by adjustment programs. In contrast, in the 90's exports declined and imports increased foreign debt that each country maintained.

One factor that affected the increase on exports is the types of economies of the countries. The countries of the region have competitive economies. It is because all Andean nations engaged in the production of the same products like agricultural goods.

The custom regulations have been divided in two aspects: imports and exports. The import arrangements are mainly divided into seven which are:

Imports for Consumption, Temporary Admission for Re-export in the same state, Temporary Admission for Inward, Replacement of Goods Duty Tariff, processing under customs control, Customs Warehouse, and Reimportation in the same state.

As imports, the exports regulations are divided mainly in three categories. First we have the final export, after there is the temporary export for re – importation in the same state, and finally the temporary export for outward processing.

Discussion

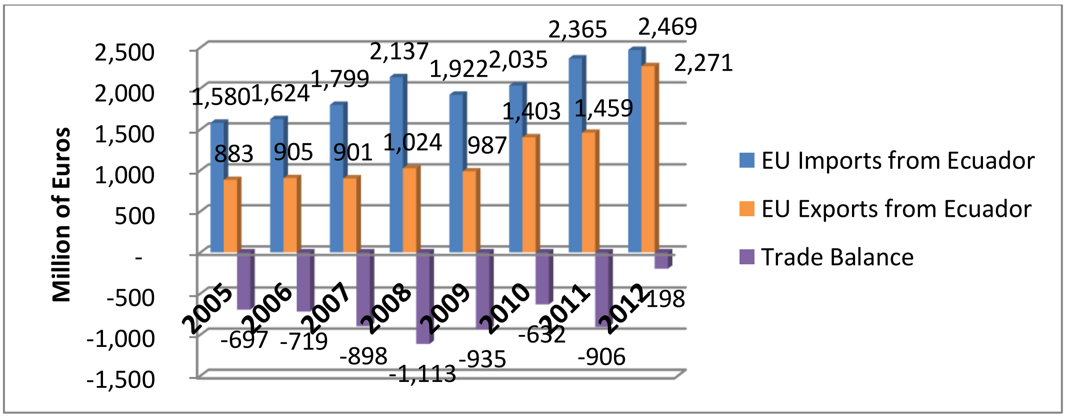
Ecuador had been advocating since the 90s the need to enhance and strengthen its relations with the European Union. Over the years, the trade between EU and Ecuador has had a trend which increases their commerce relationship.

Nowadays, Ecuador will sign a multiparty agreement with the EU in order to increase the trade into the European market which is around 7% of the world's population. Additionally, the European Union invests around 35% of the world Foreign Direct Investment.

On Graphic 19, the trade relationship of UE and Ecuador shows an increase on exports having a positive trade balance for Ecuador since 2010. In 2012 it reached 2.469 million of euros.

Currently, Ecuador maintains a significant non-oil trade surplus with the European Union. The countries want to expand and achieve preferences that stay with the Generalized System of Preferences Plus, better known as GSP+.

Graphic 19: Trade between European Union and Ecuador

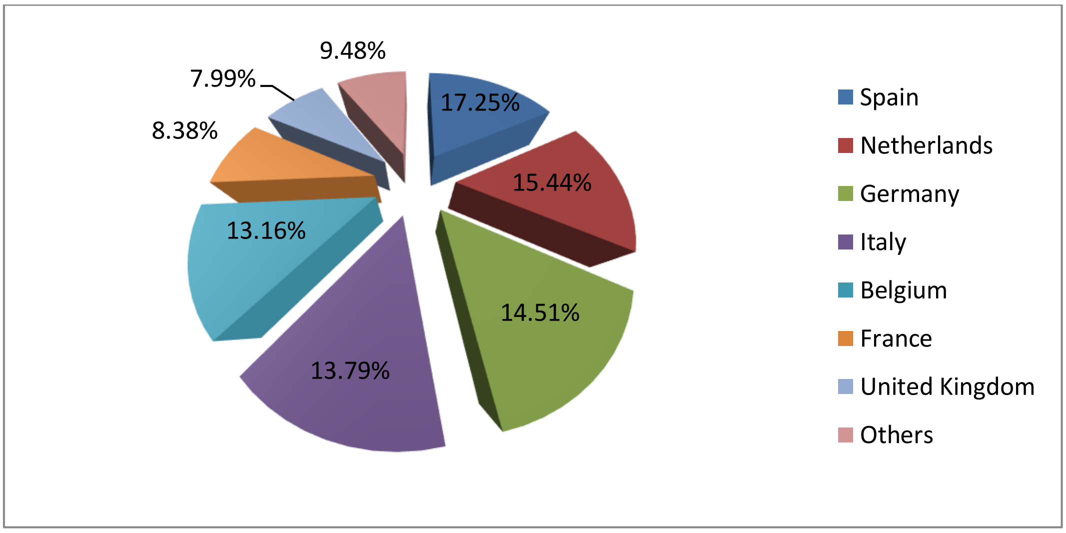


Elaborated by the Author. Source: European Statistics (2015)

On Graphic 20, the main countries that import from Ecuador are Spain, Netherlands and Germany. In 2012, seven European countries accounted for 90% of Ecuadorian exports to the EU. Almost 97% of these exports were raw materials and food. On the case of imports, 56.9% of the products were for agricultural products and 43.1% for non – agricultural products.

The main Ecuadorian products for exportation are tuna, cocoa, roses, shrimp, etc. It also seeks to bananas which pay a high value of 100 euros per ton.

Graphic 20: Imports from Ecuador by European Union country



Elaborated by the Author. Source: European Statistics (2015)

The multiparty agreement started with Colombia, Peru and Bolivia. However Ecuador in 2009 left the process. It is expected that the agreement will be signed on 11 November this year, after negotiating rounds.

The main advantage for Ecuador is the entrance of bananas on the European market with a better price. The banana sector will be directly beneficiated by the agreement. The direct beneficiaries are the exporting companies and employees from the agricultural sector.

However, there are sensitive topics such as investment, public services, intellectual property, market access for agricultural and non-agricultural goods, rules of origin, sanitary and phytosanitary measures, government procurement, policy area competition, customs facilitation, trade and sustainable development, dispute settlement, among other topics that set the boundaries of the proposed negotiations for EU.

European trade proposal raises WTO – plus. It is procedure that goes beyond the required by the World Trade Organization. For example, there are methods into the sanitary and phytosanitary area where Europe demands more measures than those ordered by WTO. It will increase the direct and indirect costs in the production of the products to be exported which will leave a smaller net profit for Ecuador.

In order to comply with the norm by EU is necessary a machinery of Europe itself. Although the stated aim of sanitary and phytosanitary measures and technical regulations is to protect the health of people, plants and animals and providing consumer information on the characteristics of products, but the EU uses it to restrict entry of certain products from Ecuador (Jacome, 2012).

The effects in terms of economic growth are very small for Ecuador. About 0.5% of GDP will be the increase for Ecuador. On the employment generation and expansion and diversification of manufacturing activities, the results are very poor alike. If the banana is excluded, the market access gains would be even lower.

It is understood then that the winners of this process would be the largest marketers of bananas. In addition, the Ecuador already had the general system of tariff preferences with the EU. So the EU expects this agreement to ensure important access to our economy. In short, the EU has much more to gain, while Ecuador would jeopardize their future.

The agreement contributes to increasing inequalities in developing countries like Ecuador. The flow of goods will be privileged but the movement of workers can be paralyzed. It increases the bargaining power of capital over labor, reduce wages and increase inequality (Stiglitz, 2009).

The European Union increased the commerce with the application of TARIC and the Kyoto Convention. On Graphic 13, it shows the increase of exports over the years applying both measures. For this reason, Custom Regulations practiced on the EU have a direct relationship with the increase of trade. Even though, the European zone was facing slowdowns in the economy.

The European Union has a complementary economy because the nations do not export the same as CAN. The Union is divided into five areas for production. The continental area is specialized in the industrial products. The Mediterranean area is specialized in tourism and an important part of agriculture. The Baltic area is specialized in technology. The Central Europe area is of lower economic activity but is concentrated in different industrial sectors. Finally the British area specializes in oil and coal. Therefore, EU is considered a commerce creator.

The implementation of TARIC and the Kyoto Protocol boost and still rise trade in the Custom Union. Due to the facts showed it is considered a building block.

The Andean Community of Nations has applied two main measures on custom regulations area which are NANDINA and Single Custom Document. On Graphic 18, the historical data shows a minimum movement on exports and imports when the methods are putting into practice. The regulations have not direct relationship over the improvement of commerce inside the Community so CAN is limiting trade inside and outside the community. Consequently, CAN is considered a stumbling block.

Customs regulations set out in the accession of Ecuador in the multiparty agreement of the European Union with Colombia and Peru have some variations. The European Union applies the TARIC and Ecuador the NANDINA which are opposite nomenclatures because one creates trade and the other keeps it down.

The European Union regulations are stricter than the Andean regulations due to the types of economies.

European nations are more selective in the products imported to their countries since their economic level is higher than Ecuador. Therefore, the country must begin to export products with added value. It can increase the quantity and the quality of the products offered to the world.

Conclusion

The research shows that customs regulations can be restrictive or permissive in international negotiations depending the way on which the custom regulations are applied. The European Union and The Andean Community of Nations have applied methods to limit or allow trade by implementing certain regulations.

The European Union custom regulations allow exports and imports grow by applying the correct measures. It is shown the GDP on the EU before applying TARIC which increases around $3 billion. And after TARIC is applied the GDP increased almost double to $7 billion.

When the Kyoto Protocol came into force in 1998, the economy expanded. The GDP of the European Union before the Protocol was signed, it grown $6 billion. Subsequently, after having signed the Protocol the economy increases around $17 billion.

The European Parliament takes de decision of applying some customs regulation because it opened the market to other economies. The countries understand the importance of having complementary economies. It has been a creator and developer of trade.

Likewise, CAN applied two main measures that attempted to obtain a more efficient and effective customs process. The first measure is the NANDINA which increase imports and decrease exports creating a negative trade balance. It occurs because the time of customs clearance process in Ecuador is not quickly. The process can take minimum 8 days.

The second measure is the Single Customs Document (SCD) on which occurs the same as NANDINA by restricting commerce. So it remains in evidence that the Andean Community of Nations and the Custom Regulations have not a direct relationship.

There are some factors that do not allow customs regulations have a real effect on trade. It can be the political well and the type of economies. In the case of CAN the competitive approach used by the Community does not allow the countries to grow equally. The nations have to compete with each other to win the same markets. The European Union has applied a complementary approach offering the world different type of products.

The accession of Ecuador to the multiparty agreement with the European Union shows opportunities and threats. Ecuador has the possibility to open up into the European market in a faster way by covering a market of around 370 million inhabitants. As well, the country can improve the exportable basket. Ecuador do not have products with added value with are more profitable than raw materials.

However, a possible threat can be a negative trade balance for importing more European products than Ecuadorian exports to the Union. Ecuador is compromising to import European products. Those countries have bigger production of products meaning that the Ecuadorian products will not face competition to foreign products.

Another possible threat is the limitation to the entry of products for non – custom regulations like sanitary, phytosanitary and origin policies which goes beyond to the policies imposed by the WTO.

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