Interview: Felipe Espinosa – Executive President, American Chamber of Commerce in Ecuador

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Felipe Espinosa, executive director of the American Chamber of Commerce in Ecuador, recounts the country's relationship with international free trade and recent developments favorable to the latter. Espinosa highlights the progress made by the national institutions to attract and retain additional economic activity in a country where the cost of entry is low and investments guaranteed by a dollarized economy.

The levels of trade between Ecuador and the United States of America, mainly composed of minerals, have fallen from 7bnUSD to 3.75bn USD between 2014 and 2016 according to the Observatory for Economic Complexity. What are some of the American Chamber of Commerce's main actions to strengthen the trade of other types of goods between these countries?

Regardless of the sector, international trade in Ecuador has only recently become a priority for the government. In the past ten years, the high prices of commodity would largely compensate for the fact that Correa's administration *[Rafael Correa was Ecuador's President between 2007-2017 – Ed.]* overlooked international trade as a mean of economic development. The decrease of oil prices at the end of this period was a blessing in disguise for the diversification of trade. Indeed, as prices of commodities dropped, the need to concentrate the government's attention to trade became a necessity.

Founded in 1975, the American Chamber in Ecuador's initial role was determining trade expectations between countries and arranging for Ecuador's government to accommodate with USA's trade policies. Our role in building a bridge between the U.S chamber of commerce and the Ecuadorian government has given way to direct contact between potential American investors in the country and the Ecuadorian governmental representatives. The first step was convincing the Ecuadorian authorities that American trade policies were driven by the private sector. Our first initiatives have been successful and must continue to convert expectations into realized trade between the United States of America and Ecuador.

USA is Ecuador's 5th largest supplier of packaged medical goods. What do you think makes the Ecuadorian market attractive for American export pharmaceutical companies?

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The presence of American pharmaceutical companies in the Ecuadorian market dates back to the first half of the 20th century. In the 1970s, companies would routinely open production facilities in each of the countries they had operations in. With the acceleration of international trade and intensification of globalized competition, the need to rationalize productive processes took a toll of Ecuadorian pharmaceutical manufacturing plants. Indeed, Ecuadorian plants were initially serving a market that was too small to even consider their capacities to be upgraded. Despite having closed their plants, pharmaceutical companies with an established presence in Ecuador remained in the country with well-implanted affiliates operating as distributors.

Additionally, Ecuador is an attractive market in terms of sales per capita. As point in fact, the level of sales in the Ecuadorian pharmaceutical market is roughly equivalent to that of Peru despite Peru having twice the population of Ecuador. In a nutshell, investing in Ecuador is an affordable yet profitable bet. Finally, Ecuador's dollarized economy is an element instilling investor confidence. Indeed, the use of American currency hedges any incoming investment against the risk of devaluation and hyperinflation.

Ecuador scores poorly in ease of doing business compared to its neighbors according to the World Bank. What do you view as the main challenges in doing business in Ecuador?

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Ecuador's poor performance in attracting foreign investment and activity in the country is merely the consequence of a historical political perception that certain types of foreign investment were

harmful to the country's economy. As a result of these administrations' inability to selectively attract and reward productive investments into the country while barring speculative investment in Ecuador, the government has rendered it difficult for all types of investment to enter the country. Thankfully, President Moreno's political agenda seems to be going the right way in terms of attracting investment, and one can argue the country's international investment policies are improving.

Difficulties also exist for those looking forward to establishing a direct presence in Ecuador. Indeed, administrative processes are cumbersome and drugs registration is no exception to the rule. Delays in getting the approval are common and the actual process can differ from the conventions established by law. Finally, some issues regarding intellectual property protection exist. In this regard, the American Chamber of Commerce in Ecuador can provide support to its members and can come up with solutions for them.

Being also a healthcare expert, what is your assessment of the healthcare sector and where do you see room for improvement?

The political ambition to provide Ecuadorians with universal healthcare is honorable. However, there have been some discrepancies between the plan and its implementation. Laudably, the government declared that non-contributors to the social security, such as dependents and family members of contributors, would have equal access rights to healthcare service as contributors. Unfortunately, inadequate resource allocation to the social security greatly affected the outcome of such plan, leaving over a fifth of the population uncovered and the social security with financing problems.

An additional point of attention, but this is not specific to the Ecuadorian government, is the negative outcome of solely price-led public tenders. The Ecuadorian administrative bodies have sought to curb the price of medication acquired in public tenders downwards, often at the expense of quality. I suppose, the reasoning supporting the acquisition of the most economical solution must not overshadow the importance of acquiring effective and compliant medicines.

The pharmaceutical industry in Ecuador is mainly dependent on imports. How do you perceive the government's ambition to substitute imports with local production?

Rather than Ecuador's dependency on imports, the government's delusional conception that companies should necessarily produce locally might be the real issue to solve here. With regards to our country's size, made in Ecuador goods would have to be directed at international market to become an interesting investment. Therefore, while the construction of a generics plant capable of

competing with international suppliers might make sense because of the low level of investment required, the government's will to subsidize the production of innovative drugs in the country is counter productive and unsustainable. Indeed, Ecuador is reliant on the import of raw materials to produce any type of drugs making their export more complex. Most of the recent investment in the Ecuadorian pharmaceutical industry have been carried our by Latin American companies looking to increase their footprint in the country since their presence in the Ecuadorian market is more recent that that of American companies.

In June 2017 Ecuador confirmed its free trade agreement with the European Union. How do you see this affecting Ecuador's trading profile?

Prior to this free trade agreement, Ecuador had a general system of preferences signed with Europe, which provided preferential trade tariff rates. As the latter came to expiration, and European-Ecuadorian trade relations were important for the country, Ecuador's government was left with no other choice than to negotiate free trade conditions with Europe to continue trading on a preferential basis.

The free trade agreement however, now exposes certain of Ecuador's industries, which need protection. The treaty signed does contemplate this and provides timing for the inclusion of "sensitive" industries or products. Understandably, the politics of Ecuador are still hostile to savagely capitalistic free trade agreements because they fear for their national industry. The same way France has strict protectionist measures on its crops or the USA has on its telecommunications sector, the Ecuadorian government can embrace free trade agreements as a way to develop its economy while protecting certain sectors.

What advice could you give to someone willing to set up a business in Ecuador?

The mainstream editorial line of medias highlighting the difficulties associated with doing business in Ecuador does not reflect the reality. I firmly believe that business in Ecuador is easier than what is communicated in the press. Indeed, the Ecuadorian government is in the process of eliminating any trade barriers and will gradually learn how to do so in a manner that is most relevant to the country's economic needs. In fact, having surveyed a few of my member companies we come to the conclusion that the difficulties one could encounter are being addressed and that the ease of doing business in Ecuador is improving.

Also, Ecuador's dollarized economy is a tremendous guarantee for investors who would weigh the investment in Ecuador against the one in other neighboring countries. Any investment made in Ecuador is hedged against the risk of devaluation. Furthermore, Ecuador is not a big bet compared

to countries such as Brazil or even Colombia. Finally, it appears now is the right time to make a good deal with the acquisition of a local player, as investment has not come to Ecuador for quite some years.

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