

Research Purpose

Purpose Statement: The purpose of this descriptive/analytical study is to expose the unbalanced relationship of exporting commodities between Ecuador and developed countries and its impact on their economic development.

Research Questions:

How is Ecuador's economic development being affected by their exporting of commodities to the global market and developed countries?

Research Rationale

While the field of Political Economy provides an understanding on Latin America's economic development, analysis on the unbalanced trading relationship between Ecuador and developed countries can be expanded upon

Methodology:

The analysis of Ecuador's gross domestic product (GDP) can facilitate the understanding of the impact of exporting commodities to the global market. In order to expand this analysis, the Dependency theory and core/periphery model can explain the unbalanced trading relationship between Ecuador and developed countries (Prebisch, 1950).

Latin America Economic Development

The economic development of Latin America reflects poverty and inequality with the masses. While talking about economic development, it is also important to recognize the political instability of Latin America which is the failure of democratic systems to take hold and consolidate democracy.

The study of economic development in Latin America have four different approaches:

- Corporatism (Wiarda, 1974).
- Modernization (Bernstein, 1971).
- **Dependency** (Prebisch, 1950).
- **Neoliberalism** (DeMartino, 2000).

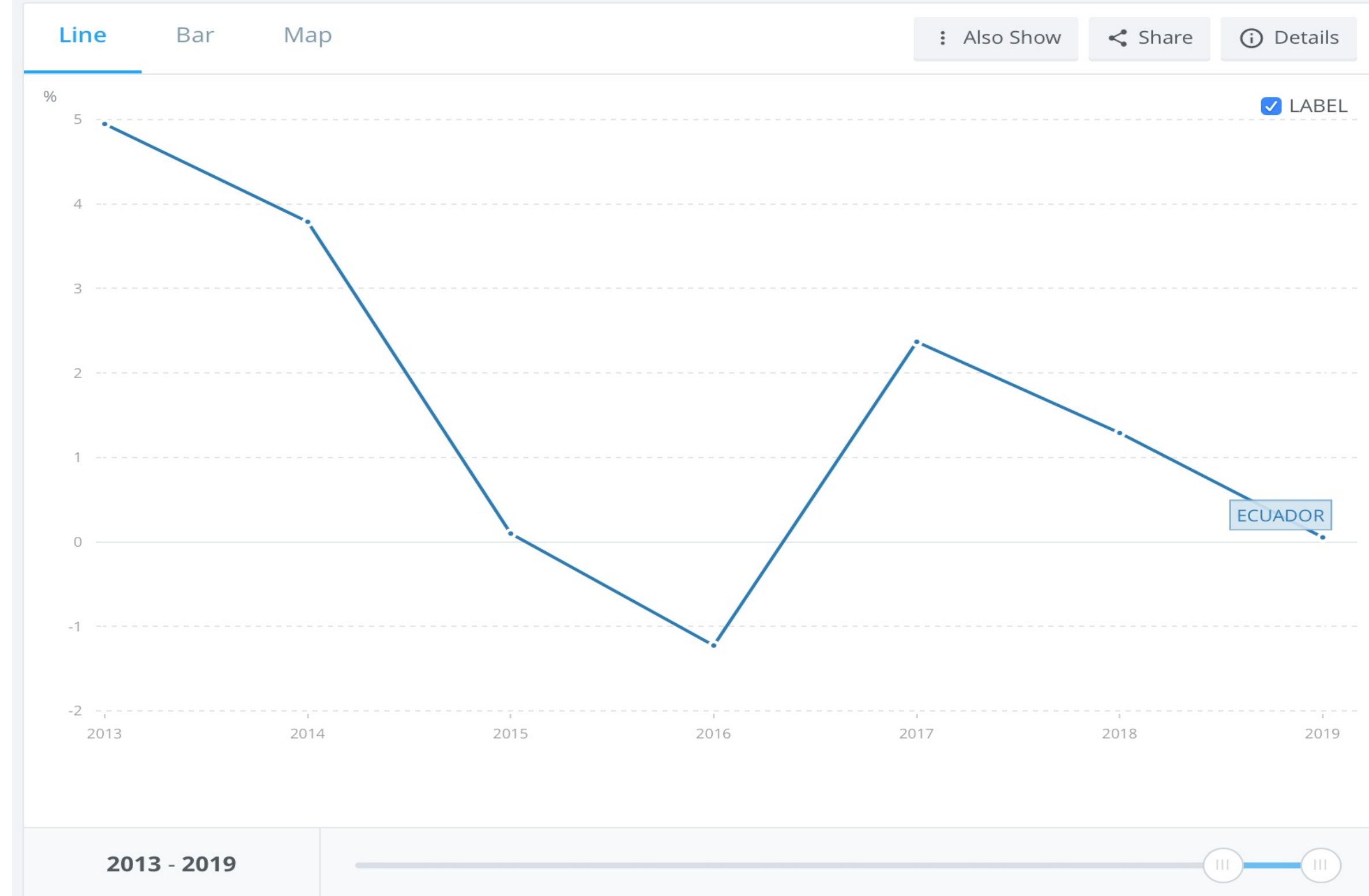
Export-Led Growth Economy - Ecuador

- The export-led growth is a development strategy that aims to increase productive capacity that focuses on producing for the global market. Ecuador and many other Latin America countries follow this model
- Ecuador as an emerging market economy shows implicit reliance on export markets.
- Ecuador is going through extended stagnation periods, little to no growth in their economy. Since 2015, the annual percent growth of Ecuador's GDP was less than 3%, suggesting stagnation in their economy.

Year	2013	2014	2015	2016	2017	2018	2019
GDP Growth	4.947%	3.789%	0.099%	-1.226%	2.368%	1.289%	0.054%

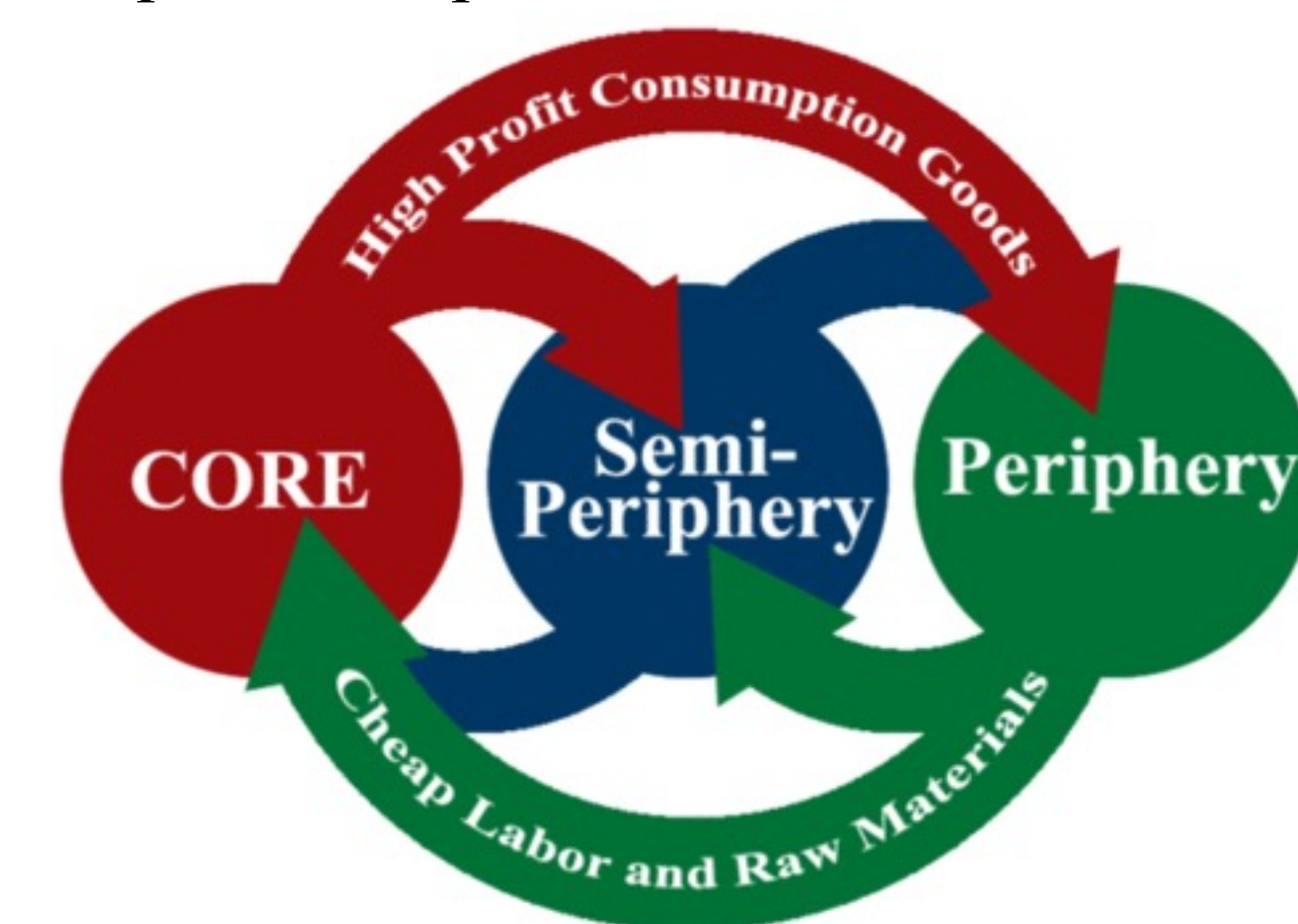
GDP growth (annual %) - Ecuador

World Bank national accounts data, and OECD National Accounts data files.
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Initial Findings – Dependency Theory Application on Ecuador

- In 2018, the Observatory of Economic Complexity (OEC) reported that crude petroleum is 36% of exports and 30.2% goes to the United States. Ecuador is providing about a third of its exports to the U.S.
- The same crude petroleum that was exported to the United States returns as an import to Ecuador as a refined petroleum. About 45% of imports are made up of machines and refined mineral products that come from the U.S. (23%) and China (17.8%). Illustrating how about half of imports are controlled by developed countries like the U.S. and China.
- According to the OEC, since 2013 through 2018, United States' product destination growth decreased 40.7% (-4.6B) while at the same time China increased 154% (912M). The data from OEC suggest how China will most likely become the core in the near future.
- In 2018, Ecuador had a negative trade balance of -\$916M, their imports surpassed their exports. The amount of money made out of exporting was not enough to cover what Ecuador spent on imports.



Wallerstein's World System Theory Model

Predictions

- Ecuador dependency on the exporting of commodities and the importing of refined minerals and technology depends on the needs of mainly United States and China.
- Even if one developed country decides to not be the core, Ecuador will still be dependent on the needs of another developed country, in this case, China.
- In order to cover the trade deficit Ecuador will keep building up foreign debt.

Ecuador should take into consideration the refining of their own petroleum and production of machinery in order to boost their economy. This solution is not an easy task for a developing country like Ecuador due to their less advanced technology which creates the need to import machinery from developed countries.