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Lead Article: United States

Smoother sailing for supply chains through the lens of trade and tax

In today's global business landscape, volatility, uncertainty, complexity, and ambiguity—collectively known as VUCA—are more pronounced than ever. The post-Covid era has dismantled traditional geopolitical guardrails, creating a more challenging trade and tax environment, including supply scarcity and a general decrease in trust. For businesses, this means long-held assumptions about globalization, supply chains, technology and regulation are no longer reliable for multinationals to strategize and fund their visions for growth.

Adopting a multidisciplinary approach to these changes from trade, tax and supply chain management perspectives is important for companies to remain competitive, mitigate risks and unforeseen tax costs, and ensure compliance in a rapidly evolving global landscape. This blog will discuss the key elements of a multilayered approach to three interlinked areas: supply chain management, trade strategy and associated tax risk management.

The ripple effects of geopolitical changes on trade, tax, and supply chains

The shifting dynamics of global power require companies to adopt a more strategic and adaptive approach. Trade tensions and tax policy reform are causing increasing disruption and instability to supply chains. This disruption, along with the remedial actions companies might take in response, can trigger collateral consequences, e.g., tariffs and additional taxes, leading to significant unforeseen costs. A proactive approach is essential to alleviate this ripple effect.

To adopt an integrated approach, it is important to have a fundamental understanding of each area—trade, tax, and supply chain management—and how they intersect.

The evolving trade landscape

Strategic considerations for US-China and US-Mexico relations

Recent actions by the Biden administration have added more complexity to the trade landscape. Proposed increases to existing tariffs on Chinese-origin steel and aluminum imports, as well as new tariffs on other Chinese-origin products, are significant developments. These tariffs, ranging from 25% to 100%, target strategic US industries such as semiconductors, solar cells, electric vehicles, and medical supplies. The Biden administration also proposed new tariffs on steel and aluminum from Mexico to the extent they are not melted and poured within Mexico—a sign that the United States continues to extend its trade policy reach vis-a-vis goods transiting its United States-Mexico-Canada Agreement (USMCA) trading partners.

The upcoming US election is creating even more uncertainty in the trade landscape. Depending on the outcome, we may see substantial changes in trade policies with significant implications for US-China and US-Mexico relations. These potential changes in US trade policy already are influencing business decisions. Some companies are postponing investments in regions like Mexico until there is greater clarity on the future trade landscape.

Not only are companies facing pivots in US trade policy, but they also must grapple with counteractions taken by US trade partners.

Adapting to changes in Mexico's trade policies

Recent changes in Mexico's trade policies have had significant implications for businesses. The Mexican government has imposed tariffs on imports from countries without free trade agreements, impacting many countries, including China. Additionally, the cessation of certain tariff relief for maquiladoras—companies that import raw materials on a temporary basis for manufacturing and re-export—adds another layer of complexity.

These changes are likely to increase the cost of finished products coming out of Mexico and complicate compliance with certain aspects of the USMCA, such as duty deferral provisions.

The potential rise of retaliatory tariffs

The imposition of retaliatory tariffs poses significant risks for businesses engaged in international trade. For example, the Office of the United States Trade Representative (USTR) recently requested dispute settlement consultations with Canada under the USMCA over Canada’s recently enacted Digital Services Tax (DST). If unresolved, these types of disputes could trigger retaliatory measures, including tariffs, and disrupting trade relations and business models, particularly in the digital services sector.

The importance of building resiliency into supply chains

Considering these challenges, building resilience and agility into supply chains is more important than ever. Supply chain resilience is not merely about having multiple sources for the same product, having sophisticated technologies to provide early risk detection, or knowing the origin of all supply capabilities. Rather, building resiliency ought to take a risk-based approach that balances costs, capabilities, and supply assurance. This approach should involve identifying risks, assessing the probability and impact of those risks occurring and prioritizing and investing in the mitigation efforts accordingly.

Decisions affecting supply chains entail significant transaction costs, as personnel, assets — both tangible and intangible — and functions are transferred between jurisdictions in response to the changing trade and political landscape. Lack of visibility into such costs or underestimation of the aggressiveness in certain jurisdictions seeking to apply them can significantly impact the enterprise business case for change.

Why the role of tax is more pivotal than ever

Historically, tax departments played a different role in footprint decisions, focusing on creating business-aligned, efficient tax structures that would serve as a growth enabler. The current landscape, however, demands that tax functions take on a more strategic and protectionary role.

As discussed above, implementing supply chain resiliency may require a degree of course correction, such as redomiciling business operations, assets, and personnel from one country to another in response to the external trade and political environment. The transfer of functions or assets can attract substantial taxes upon exit as well as unaccounted transactional costs for the movement of assets or provision of services. These costs are a critical component in the overall evaluation of location assessment and can directly impact enterprise return on investment and shareholder value.

Thus, from a tax perspective, it is important for companies to model various scenarios so that they can make informed decisions based on the anticipated impact of changes to the value chain. At the crossroads of changes between geopolitical and business change, the role of tax is more vital than ever. Companies must pivot from traditional value creation to strategic considerations that address the literal and figurative trade winds.

The importance of a multidisciplinary approach

Navigating the current trade and tax landscape requires a multidisciplinary approach. This involves integrating insights from tax, supply chain, customs, and policy experts to develop comprehensive strategies. Proactive planning, scenario modeling, and understanding the full spectrum of risks and opportunities are essential for making informed decisions.

Call to action

To successfully navigate the complexities of trade and tax in a VUCA world, businesses should consider implementing the following strategic steps:

- **Evaluate geopolitical risks**: Assess geopolitical risks and their impact on your operations. Understand how global power dynamics affect supply chains and regulations.
- **Acknowledge megatrends**: Stay informed about global trends influencing your industry. Monitor changes in US-China and US-Mexico trade relations and prepare for various scenarios.
- **Leverage trade data**: Model tariff impacts using available trade data (e.g., Automated Commercial Environment (ACE), broker data, part level data, supplier/vendor data). Connect the dots between trade data and the available levers to affect tax and supply chain outcomes.
- **Look beyond tax implications**: Integrate tax considerations with broader business strategies. Factor in potential tax costs like exit taxes and model different trade and supply chain scenarios for informed decision-making.
- **Build resilience into your supply chain**: Develop a resilient supply chain strategy with risk assessment, strategic sourcing, and traceability. Evaluate the impacts of tariffs and reassess your sourcing strategies if necessary.
- **Empower decision-makers:** Equip your leadership with tools and insights for informed decision-making. Use a multidisciplinary approach by integrating insights from tax, supply chain, customs, and policy specialists.

Conclusion

In a VUCA world, staying ahead of trade and tax developments is important for maintaining a competitive edge. Businesses must adapt to the shifting geopolitical landscape, build resilient supply chains, and leverage strategic tax planning to navigate these challenges effectively. By adopting a comprehensive, multidisciplinary approach, companies can better position themselves to thrive in an increasingly complex and uncertain global environment.

Mexico

Tariff increases and Rule Eight authorization updates

Upon permanent importation of goods into Mexico, the payment of the General Import Duty (GID) and import Value Added Tax (VAT) should be performed. The GID rate will be determined by the Mexican Tariff Code in which the goods to be imported are classified in, whereas the import VAT is levied at the general 16% rate, with certain exemptions.

However, as part of the incentives for promoting the foreign trade in Mexico, the following programs grant certain benefits on the GID triggered upon the importation of goods:

Manufacturing, Maquiladora, and Export Services Industry Program (IMMEX for its acronym in Spanish): Companies under the IMMEX program can import raw materials under the temporary regime by deferring the payment of GID which is determined upon importation. As a note, for specific goods considered "sensitive," an additional authorization should be secured for importing them under the temporary regime.

Sectoral Promotion Program (PROSEC for its acronym in Spanish): Eligible companies can import certain goods, including raw materials, components, machinery, and equipment at preferential tariff rates regardless of their origin, only for specific industry sectors and for performing a manufacturing process. The finished product resulting from the manufacturing process could be exported or sold in the Mexican market. As a note, when the raw materials to be imported and incorporated into the specific manufactured products are not included within the list of items covered by PROSEC, an additional permit known as Rule Eight could be requested to the Authority to obtain the exemption of the GID rate.

Tariff increase

On April 22, 2024, the Decree amending the Tariff of the Mexican Law for Import and Export Taxes was published in the Mexican Official Gazette (DOF for its acronym in Spanish).

The objective of this Decree is to implement mechanisms that generate stability in the national industry and allow for a balanced market interaction, eliminating economic distortions in trade that could affect the nearshoring of strategic productive sectors in the country, as well as safeguarding Mexico's international commitments.

Therefore, temporary tariffs ranging from 5% to 50% ad-valorem duty are established for the importation of goods classified under 544 tariff codes (HS/HTS codes) from various sectors, including: steel, aluminum, textiles, clothing, footwear, wood, plastic, furniture, chemicals, paper and cardboard, ceramics, glass, electrical materials, transportation (car parts, generators, bicycles, among others), and musical instruments. It is important to mention that this measure will be in effect for a period of two years starting April 23, 2024, but this could be extended according to the Authority's criteria.

It is noteworthy that the Decree also reaffirms that the tariff benefit granted by the PROSEC applicable to various tariff codes of steel products will be maintained during the validity of the two-year period of the Decree, to avoid disruptions to the production and preserve competitiveness in the most sensitive industrial sectors such as: electrical, electronic, automotive, and auto parts. These tariff codes are:

- In the electrical industry program: 7208.39.01, 7208.51.04, and 7211.29.99;
- In the electronic industry program: 7225.19.99
- In the automotive and auto parts industries program: 7208.26.01, 7208.27.01, 7209.16.01, 7209.17.01, 7211.29.99, 7225.30.91, and 7225.40.91.

Mexico

Rule Eight authorizations

Starting in April 2024, we observed a tendency of the Mexican Authority for denying Rule Eight authorizations or renewals for temporary importations under IMMEX. This was later confirmed by the Mexican Ministry of Economy through a publication issued by the National Foreign Trade Information Service (SNICE) on May 16 providing relevant information regarding the current criteria for Rule Eight applicable to sensitive goods (i.e., goods the importation of which requires specific controls to protect the national industry and that could be used for a different purpose other than the one granted by the IMMEX Program: steel, aluminum, iron, textiles, sugar, used vehicle tires, mineral waste, and tobacco when imported under a temporary regime) to support national competitiveness under the following considerations:

1. The Rule Eight is granted using tariff heading 98.02 of the Mexican Tariff Law, which is why the Mexican Ministry of Economy states that they "do not have control over imports, nor traceability of the operation due to discrepancies between what is declared and what is imported, nor compliance with non-tariff regulations (RRNA for its acronym in Spanish), nor statistical control."
2. The Rule Eight should be used only to expand an industrial plant, replace equipment, or integrate an article that is manufactured in Mexico (which may have led some companies not to adhere to this criterion, so ideally those companies should have been sanctioned exclusively).
3. The Rule Eight is granted with PROSEC for permanent importations and temporary importations under the IMMEX Program.

The authority indicates that it is not applicable to request the Rule Eight permit for the “temporary importations” of sensitive goods, as the regulations impose specific requirements to prevent the dilution of control and surveillance during customs clearance and afterwards. Therefore, the alternatives to temporarily import of sensitive goods are the following (when the duty deferral would be applicable):

- IMMEX companies that intend to import sensitive goods must extend their IMMEX Program to temporarily import such sensitive goods.
- Companies that hold a Value Added Tax and Excise Tax Certification granted by the Ministry of Finance could request an extension to temporarily import sensitive goods.

It is important to clarify that under either of the two alternatives, the benefit of reducing the GID rate at the time of the temporary importation under Rule Eight would not be granted. Therefore, companies must analyze the impact this criterion could have on their current customs operation regarding the import duties to be paid in Mexico, specifically when exporting non-originating materials as part of finished goods to the USMCA or European regions.

The recent increase of import duties in Mexico for sensitive goods should be further analyzed from supply chain, financial, transfer pricing, and Free Trade Agreements (FTA) regulations perspectives

Canada

Canada Border Services Agency - CARM Implementation

The Canada Border Services Agency (CBSA) is implementing the CBSA Assessment and Revenue Management (CARM) system, which will become the official system for managing the importation of commercial goods into Canada. Here are the key points from the latest updates on CBSA.

Key dates and transition measures

CARM has been fully implemented as of October 21, 2024. The full cutover period was scheduled to take place between October 4, 2024, to October 21, 2024, and CBSA was scheduled to fully migrate its existing systems to CARM. During this period, some legacy systems were retired, and the CARM Client Portal (CCP) was unavailable. Some CBSA systems are still being utilized as the full transition to CARM is completed.

Release prior to payment (RPP) program changes

As a part of the CARM roll-out, CBSA now provides a dashboard for importer financial security requirements. All importers, including non-resident importers (NRI), will need to post their own financial security to obtain the release of imported goods prior to the payment of import duties. The use of an importer’s customs broker’s RPP security no longer will be permitted.

The full financial security requirement updates will occur over a 180-day transition period from October 21, 2024, to April 19, 2025, allowing importers to adapt to the new financial security model.

CARM registration and program enrollment

Existing importers and trade chain partners must register on the CCP to manage their accounts and enroll in CBSA programs. Registration resumed on October 21, 2024, after the cutover period ended.

New importers without a history of importing commercial goods into Canada will benefit from the 180-day transition period with a zero-dollar financial security requirement.

Impact on supply-chain partners

The CARM testing environment and certain CBSA legacy systems will be unavailable for a short period of approximately two months from the end of the cutover period.

For Trusted Trader Programs, enrollment activities for the Customs Self-Assessment (CSA) program were paused during the cutover period and resumed on October 21, 2024, with full functionality.

Importer next steps

1. Register for CCP: Ensure registration on the CARM Client Portal and understand the new requirements. Importers should register immediately if not registered yet to avoid disruption to supply chains.
2. Post financial security: Prepare to post financial security to avoid disruptions in the release of imported goods.
3. Monitor transition period: Be aware of the cutover period and plan accordingly to minimize any impact on import activities.

The CARM initiative is set to be a significant step towards modernizing Canada’s trade infrastructure, offering a more efficient and transparent system for managing imports.

Brazil

Tax reform and the customs impact

Brazil is undergoing a Tax Reform (PEC 45/2019), with the main objective of the project to simplify and unify consumption taxes. The Brazilian tax system currently operates through the collection of five consumption taxes that are collected at the origin of the product. In addition, the administration of resources is under the custody of each federative entity. The main change will be the elimination of the ICMS (State-VAT), ISS (Service fees), PIS and COFINS taxes (Social Contributions), which will be merged into two new taxes: CBS and IBS.

In general, the Reform provides that CBS (Contribution on Goods and Services), which will be under the jurisdiction of the Union, was created to replace PIS and COFINS. The IBS (Tax on Goods and Services), which will be a shared responsibility between the States, the Federal District, and Municipalities, was created to replace the ICMS and ISS. Together, these two new taxes will make up the Dual VAT. Additionally, the general IPI rate (Excise tax) will be reduced to zero. Finally, the IS (Selective Tax), a tax under the jurisdiction of the Union, will have a regulatory nature to discourage the consumption of products that are seen as harmful to health and the environment, also known as the “sin tax.” The Manaus Free Trade Zone will have special treatment, to aid development of the area. The Reform will be gradually introduced, with full implementation expected by 2033.

From a Customs standpoint, the key change is the reduction from the current five main taxes levied on imports, under specific rules (Import Duty – II, IPI, PIS/COFINS and ICMS), to just two taxes (IBS and CBS) on imports but with similar rates to those now applied in the local market.

In export operations, the tax burden will be lower, but still present in the form of export duty. As a rule, the rate for products is 0%, but there are some cases, such as tobacco-based cigarettes, firearms, and ammunition, where this tax is due. The Reform will have among its most relevant impacts the exemption from IBS and CBS on exports of goods and services, ensuring that exporters are entitled to appropriate credits related to transactions in which they are the purchasers of goods or services. Another positive aspect is that there will no longer be taxation at the source, but at the destination, that is, at the place of consumption, with a discount on the tax paid in previous stages of the chain. Therefore, this will not reduce the tax burden, but it could have a significant impact on the simplification of taxes and the system as a whole.

Finally, note the expected impact on Customs special regimes. Some relevant regimes are already foreseen in the project (such as RECOF and Drawback, important regimes to exempt or suspend taxes in the acquisition of goods intended for export), but it is necessary to wait for specific regulations to understand the impact on utilization and the transition process.

Noting the relevance of this subject, we reinforce the importance of regularly checking for updates to guarantee the adherence of companies under the new system, since changes may happen at any time

Peru

Changes in the drawback regime

The drawback regime in Peru has been a key element in the promotion of non-traditional exports, that is, those that provide added value, benefiting export-producing companies that incorporate imported inputs into their final products. For almost three decades, this system has operated under a clear structure: the refund of a percentage of the FOB value of exports, which is currently 3% but at one point was as high as 8%, to compensate for the customs duties paid when the inputs enter the country. However, the recent project of the Ministry of Economy and Finance (known by its Spanish acronym, MEF) proposes significant changes that could alter this panorama considerably.

The modification project

The MEF's new project, set out in Oficio No. 2079-2024-EF/13.01 dated August 28, 2024, and submitted to the Council of Ministers, seeks to replace the current percentage refund scheme with a system of effective restitution. This change would imply that, instead of refunding a fixed percentage of the FOB value, only the customs duties actually paid on imported inputs that are incorporated or consumed in the production of the exported goods would be refunded. In the words of the MEF, the measure responds to the objective of 'perfecting the current instruments,' considering that tariff levels in Peru have decreased significantly in recent years, with an average nominal and effective tariff of 2.2% and 0.7%, respectively.

The change not only would affect the way the benefit is calculated, but also seeks to generate significant fiscal savings, estimated at S/770 million by 2025 and S/1,000 million by 2026. In addition, while the National Superintendence of Customs and Tax Administration (SUNAT) adjusts its systems to this new scheme, a transitional rate of restitution of 0.5% of the FOB value of exported goods will be applied as of January 1, 2025.

The response of the export sector

The non-traditional export sector, which has been one of the main beneficiaries of drawback benefits, has received the proposal with concern. The Chamber of Exporters and other business associations have expressed that this modification could violate the principle of legal certainty that has governed the regime for 29 years, affecting the stability and competitiveness of their operations.

Exporting companies have built their pricing and production strategies under the 3% rebate scheme, and the elimination of this fixed benefit could reduce their cost structures. Exporters of high value-added goods, such as textiles, processed food, and manufactured goods, would be particularly impacted, as their production costs tend to be more sensitive to variations in tariff incentives.

Fiscal and economic implications

From the government's point of view, the reform seeks to adapt the drawback regime to the country's new tariff reality. With ever lower tariffs, the fixed 3% drawback system could result in unnecessary overcompensation, generating a considerable fiscal loss. The MEF has calculated that the modification would free up fiscal resources that could be redirected to other priority economic sectors.

However, the estimated fiscal savings come with a potential economic cost to the export sector. The measure, if approved, could reduce the competitiveness of Peru's non-traditional exports, affecting their participation in international markets. According to various analysts, a lower rebate would affect the investment and employment generation capacity of these companies, in a context in which it is necessary to promote productive diversification and sustainable growth.

Implementation challenges

Ultimately, one of the most significant challenges facing the proposal is the implementation of the new system. The change from a fixed to an effective restitution scheme would require a major adjustment in SUNAT's procedures and systems, which would need to ensure that companies can properly identify and justify the duties paid on imported inputs.

The MEF's proposed deadline for full implementation is January 1, 2025, but until this occurs, a transitional rate of 0.5% of the FOB value will apply. However, the transition to the new scheme will depend on SUNAT's ability to develop and implement an efficient and transparent system that does not generate delays or administrative overload for exporting companies.

Conclusion

The MEF's project to modify the drawback regime represents an important change in Peru's tariff policy. While it aims to generate fiscal savings and adapt the system to current tariff conditions in the country, it also poses significant challenges for the export sector. The transition to an effective refund system could have a negative impact on the competitiveness and cost structures of producer-exporter companies, while testing the capacity of the tax administration to implement a new procedural framework. It will be crucial for the government to engage in dialogue with stakeholders to find a balance that favors both the national economy and the stability of the export sector.

Argentina

New investment regime opens Argentina to increased trade

The economic context of the Argentine Republic has been marked by constant volatility and consequent uncertainty, as a result of the numerous changes in economic policy introduced by successive governments. In view of this reality, the current government, which took office at the end of 2023, made efforts to adopt measures aimed at guiding the national economy to promote the sustained growth and development of the country. Among these measures, we highlight the Incentive Regime for Large Investments (RIGI or the Regime) created by Law 27,742 of Basis and Starting Points for the Freedom of Argentinians, published on July 8, 2024, whose purpose is to attract significant foreign investments for the national economy based on certain tax, customs, and exchange incentives, ensuring regulatory stability to such investors for 30 years.

Certain sectors stipulated in the regulation, such as infrastructure, iron and steel, tourism, forestry, oil and gas, mining, technology, and energy, as well as some of their related branches, may adhere to this Regime. The regulation establishes the activities included in each sector within the Regime. In addition, minimum investment amounts are established as a condition for adhesion, calculated at USD 200 million, with the exception of some activities in the "oil and gas" sector, where a higher minimum amount is foreseen. These amounts must be brought and settled to the country within two years of joining the Regime. Moreover, a parallel Regime was launched, with greater benefits in the case of long-term strategic investments, in which the minimum amount will be USD one billion per stage of the investment.

From the date of admission to the RIGI, the interested parties will benefit from the incentives, making foreign trade more flexible, with the purpose of speeding up and improving the competitiveness of the sectors covered by the Regime. In this regard, some of these incentives are summarized below:

1. Regarding taxes and tariffs that reach import and export operations, those who adhere to the current Regime will have the advantage of enjoying tax relief, such as tax exemptions (including advances on local taxes) on imports of new capital goods related to the project, replacements, parts, and components; from the third year from the adhesion, the goods produced under the Regime will be exempt from export duties. It should be noted that such operations may not be subject to any type of limitation or restriction of an economic nature, such as "supply of products in the local market."
2. The Government foresees specific exchange benefits for taxpayers that adhere to the Regime, which mainly comprise the gradual exemption from the obligation of bringing into and settling of export collections, i.e., the delivery of foreign currency for the legal course currency in the country, currently in force, until total exemption from such obligation occurs as from the fourth year. In addition, in view of the current limitations to access the free exchange market for the outflow of foreign currency, the Regime contemplates a more flexible regime for investors in cases of repatriation of funds and distribution of profits and dividends, among others.

To ensure such benefits and, in case of any eventual litigation that may occur, the Government granted investors the possibility to submit it to an arbitration tribunal outside the territory of their choice, among the following:

- The PCA Arbitration Rules 2012;
- The Rules of Arbitration of the International Chamber of Commerce (excluding the Expedited Procedure Rules); or
- The Convention on the Settlement of Investment Disputes between States and Nationals of Other States of March 18, 1965, or, if applicable, the ICSID Arbitration (Additional Facility) Rules.

Taxpayers wishing to take advantage of the regime are already authorized to submit their investment project and may do so until July 8, 2026; the Government may grant an additional one-year extension for registration.

Ecuador

Increasing opportunities - strategies to take advantage of Ecuador's Free Trade Agreements with China and Canada

This article explores how Ecuadorian companies can maximize the benefits of Free Trade Agreements (FTAs) ratified with China and soon to be ratified with Canada. The agreements with these two countries, which have the potential to offer preferential access to key markets, present significant opportunities to diversify Ecuadorian exports and increase competitiveness.

The Ecuadorean government has made it clear that increasing international trade is a crucial component of the country's future economic growth. Over the past decades, the country has relied on the export of minerals, oil, agricultural, and fisheries products to generate income and maintain economic stability.[1] During this time, FTAs have been a fundamental tool for increasing access to new markets, diversifying exports, and improving the country's competitiveness.

As mentioned above, Ecuador recently signed an important FTA with China,[2] and is currently negotiating a new FTA with Canada,[3] two markets with great growth potential for Ecuadorian products.

Overview and key benefits of FTAs with China and Canada

The FTA with China, signed in May 2023, [4] focuses on facilitating access to the Chinese market for key products, with tariff reductions that have been particularly beneficial for exports of agricultural products such as bananas, cocoa, and shrimp.[5] In addition to improving the competitiveness of these products, the agreement also offers opportunities for Ecuador to attract Chinese investment in strategic sectors such as infrastructure and technology.

The potential agreement with Canada may provide opportunities for Ecuadorian companies to take advantage of the demand for sustainable products, especially in sectors like agriculture, fisheries, and manufacturing, further allowing Ecuador to diversify and increase the goods that it has available for exports.[6] Canada represents a high-value market, and Ecuadorian companies stand to benefit not only from the elimination of trade barriers, but also from increased demand for organic and certified products.[7]

Strategies for Ecuadorian companies

To take advantage of the benefits that the FTAs with China and Canada could bring, Ecuadorian companies should consider specific strategies to increase their export capacity and competitiveness.

Market research: Companies should conduct extensive research on consumer tastes and preferences in China and Canada. In China, for example, there is a growing demand for organic and sustainable products. In Canada, preferences for organic and certified products are equally important.[8]

Certifications and compliance: The Chinese and Canadian markets impose high standards in terms of quality and sustainability. Ecuadorian companies must ensure that they comply with the required regulations and certifications, such as organic, sustainable, or phytosanitary certifications.[9]

Product diversification: Companies should explore exporting non-traditional products, such as manufactured or value-added goods, and decrease dependence on traditional agricultural products.[10]

Cost reduction: Companies can use tariff reductions to lower their production costs and improve their profit margins without losing competitiveness.[11]

Future projections and conclusions

In the next five to 10 years, significant growth is anticipated in sectors such as agriculture, fisheries, and manufacturing. FTAs with China and Canada could attract foreign investment, particularly in sectors like infrastructure and technology, which will contribute to the country's economic development. In the long term, FTAs can help Ecuador diversify its economy, reducing its dependence on commodity exports and encouraging the production of higher-value-added goods.

While challenges exist, such as improving logistics and securing financing, FTAs have the potential to transform Ecuador's foreign trade and position the country as a relevant player in the Chinese and Canadian markets.[12]

Ecuador

[1] https://www.primicias.ec/noticias/economia/ecuador-canada-acuerdo-comercial-segunda-ronda-negociaciones/

[2] https://www.produccion.gob.ec/tratado-de-libre-comercio-ecuador-china/

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