Cluster Financiero

ECUADOR AS A FINANCIAL CENTER

Attracting foreign direct investments into Ecuador

Study conducted by the Center for Experiential learning at the Washington University in St. Louis for Ecuador’s Cluster of Financial Services and Ecuador’s Ministry of Commerce and Competitiveness

Center for Experiential Learning

OLIN BUSINESS SCHOOL AT WASHINGTON UNIVERSITY

PREFACE

This report was prepared for and submitted to Ecuador's Cluster of Financial Services and Ecuador's Ministry of Commerce and Competitiveness. The Financial Cluster initiative was started approximately four years ago by Asobanca, the Ecuadorian Private Banking Association and aims to improve competitiveness levels within the Ecuadorian Financial Sector. Its three strategic lines of work are: fostering a digital payments ecosystem with a focus on financial inclusion, consolidating Ecuador as a financial innovation hub within the Latin American region, and creating the conditions to make the country's financial system and stock market more attractive for international investors.

"This report focuses on the third objective of creating the conditions to make the country's financial system, its stock market and the country as a whole more attractive for international investors".

We have examined Ecuador not only as a potential financial center but as a country woven from different fabrics – socio-political, macro-economic, historical, and geographical, all of which contribute to the development of a country and all sectors represented within the economy.

We have also reviewed the competitiveness levels of Ecuador as a country and its positioning for foreign direct investments (FDI). We examined the factors that influence investors to make foreign direct investments to determine what can be done to increase FDI inflows to Ecuador. We reviewed practices and policies that have helped other countries become strong financial economies and identified which of these practices can be leveraged by Ecuador to make it a more attractive economy.

Facts and figures quoted in this report are pre-COVID figures (except otherwise stated) as these reflect the true state of the world economies before the advent of the COVID-19 pandemic in the year 2020 and the resulting economic impact.

This work was prepared as a student-led project of the Center for Experiential Learning at the Olin Business School at Washington University in St. Louis.

CONTENTS

EXECUTIVE SUMMARY

Taxes and ease of tax payments, efficiency of legal and regulatory process, government incentives for investors, participation in regional/bilateral trade agreements, ease of moving capital in and out of the country are the most important factors for investors in determining in which countries to make FDI - 2021 Kearney FDI Confidence Index

Ecuador is the seventh largest economy of the 33 countries located in the Latin America region, behind Brazil, Argentina, Mexico, Colombia, Chile, and Peru. It is also ranked the 69th largest economy in the world with Gross Domestic Product (GDP) of $96.67 billion and GDP per capita of $5,600.39 in 2020. Located on the border between North and South America, Ecuador has two economic centers: Guayaquil, a port city that facilitates trade for neighboring Latin American (LATAM) countries, and Quito, the capital. Ecuador's economic advantages include strong export trade to the US, Europe, and China; significant hydrocarbon reserves; viable agricultural and mining industries; a robust services sector; a vibrant population of young people and steady human capital resources; and a dollarized economy with little to no inflation. Considering these factors, Ecuador should be a natural magnet for FDI; however, Ecuador is one of the least receivers of FDI inflows in the LATAM region with inflows of $624million, $1.4 billion and $974 million in 2017, 2018 and 2019 respectively, ranking 17th, 12th and 13th behind even smaller economies (by GDP) in the region.

To reposition Ecuador as an attractive destination for foreign investors, we examined factors that are considered by foreign investors when determining where to invest. We also reviewed the policies and practices of countries comparable to Ecuador that have been successful in attracting and retaining foreign direct investment, and in some instances, have been grown to become financial hubs in their regions. We checked how Ecuador compares to these countries in terms of competitiveness and positioning to attract FDI.

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EXECUTIVE SUMMARY

Based on our research and review, we have identified six areas where Ecuador needs to make important changes in order to begin to attract and retain FDI at a level expected on this great economy. We have proposed actions and policy reforms around this area as a first step toward getting Ecuador ready as a financial hub and destination for foreign investors. The six areas considered include, Tax simplification, Ease of doing business, Economic openness, Infrastructural development, Capital market development and Access to capital

01

Tax simplification

Countries like Ireland, Hungary and Thailand have a reputation for being successful at attracting and sustaining FDI. They have also grown to become regional financial centers in their respective regions over the years. Several analysts have credited their success to a favorable business environment, including liberal tax laws, generous tax incentives to investors, low tax rates and seamless tx preparation and remittance processes.

Currently, Ecuador has very high tax rates and a laborious tax remittance process, which undoubtedly makes it a less attractive destination for investors. To fix this, we recommend that Ecuador takes a look at the current taxation structure, review current tax rates and find ways to reduce and optimize them for FDI attraction. We also recommend that the tax process be streamlined, rid of bureaucracies, made clearer and more seamless. An introduction of an electronic tax system can significantly reduce the 664 hours currently required to file taxes in Ecuador. Finally, Ecuador should introduce tax incentives specific to foreign investors as a basis for attraction to Ecuador

EXECUTIVE SUMMARY

02

Ease of doing business

The countries with the most seamless and uncomplicated business environments often have a high competitive advantage for foreign direct investment.

Ease of doing business covers several areas from starting an operating a business, regulatory processes, Investor protection, business laws and legislation and the general business environment in a country. The more friendly it is to run a business, the more likely it is that investors will be encouraged to do business in that location and this include both local and foreign investors.

We examined the current business environment in Ecuador, and benchmarked it against other similar nations that have successfully attracted and retained FDI, we noted that Ecuador does not have the most easy environment for businesses to thrive in and the business environment requires constant and continuous improvements to encourage growth and reposition Ecuador as a destination for investors. Some of the issues with the current business environment includes intense bureaucracy with business processes, e.g. starting a business. It takes a total of 49 days in average to start a business in Ecuador and the registration process is largely manual, requires physical presence of the business representative and several visits to the offices involved in the process. This is a major barrier to successfully starting a businesses in Ecuador, especially where there are other countries around that are more competitive in terms of their business processes and other factors. Also, Ecuador currently has fewer laws protecting investors and an inconsistent application of business legislation.

Our recommendations include a continuous improvement to business processes, enactment of easy to follow business regulations, enactment of laws and processes that protect investors, e.g. Investment protection and patency laws, amongst others. Also important to note is an elimination of bureaucracy within business start up processes and procedures. Introduction of digital business registration process to improve efficiency. Removal of physical presence conditions amongst other factors.

EXECUTIVE SUMMARY

03

Economic openness

Economic openness represents the degree to which the economy of a country interacts with the economies of other countries around the world. It is denoted by trade and financial inflows and outflows. A country that is open to free trade with other countries is more likely to attract investors than a country that is not. We reviewed the level of economic openness of Ecuador and noted that Ecuador is currently low ranking in terms of economic openness.

We recommend that Ecuador puts in places policies and practices that improves the openness of the economy. Such practices includes engaging in free trade, participation in bilateral agreements with other economies, Introduction of lower shipping tariffs, promotion and publicity for the 7 current free trade zones in Ecuador.

04

Infrastructural development

Ecuador ranks 62 out of 141 countries (?) in global competitiveness for infrastructural development. Generally speaking, Ecuador is not doing badly in terms of infrastructure, however, the country lags behind in Digital infrastructure.

Digital infrastructure continues to develop at a slow rate and with relatively low government commitment to digital infrastructure projects. This limits Ecuador's ability to effectively compete with other countries for FDI.

Improvements to digital infrastructure including increasing access to internet usage, digital payments, digital business processes etc. will help to build a more sophisticated financial sector in Ecuador and help to promote Ecuador's position and competitiveness

05

Capital Market development

The size of a country's capital market, including bonds, stocks, over-the-counter derivatives, and other financial instruments, defines the significance of the financial and investment ecosystem, signifying that there are sufficient financial instruments and opportunities for foreign investors. The Capital markets in Ecuador at this stage is underdeveloped and causes a limitation on the availability of Investment opportunities for potential investors.

We recommend a conscious effort to grow the capital markets including combining the stock exchange in Quito and Guayaquil to allow for a more comprehensive stock exchange. Also introduce incentives to listed entities to encourage listing .

EXECUTIVE SUMMARY

6%

Ecuador has a Market capital as a % of GDP rate of 6% - Signifying an underdeveloped capital market.

06

Access to Capital

Access to capital encourages the growth of existing businesses and inspires the launch of new ones. Currently, Ecuador does not have a significant capital availability for new businesses, especially privately owned businesses. We recommended that Ecuador continues to improve on the current financial ecosystem with more attention to providing capital for businesses. This includes but is not limited to government and private led capital schemes to provide funding for business and investors .

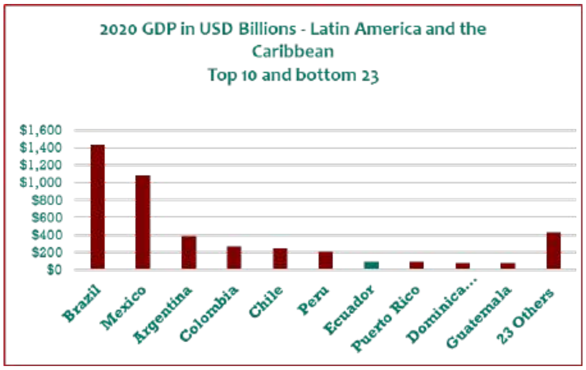
The above recommendations are not exhaustive but highlights some of the most important factors on which Ecuador can focus. Attracting FDI is journey, involving continuous improvements and dedication. It takes decades and even more, however, it requires a start and continuous monitoring. The start is what this report showcases.

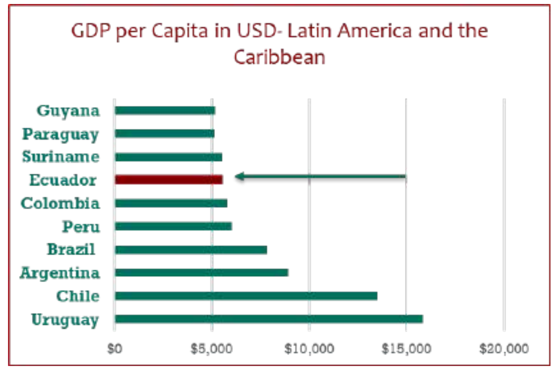
6. Capital Market Growth:

The rest of this report documents the steps taken to perform our review and the results. We benchmarked Ecuador against Mexico, Hungary, Panama, Thailand, Ireland, and Mauritius as high attractors of FDI and as financial hubs in their respective regions; identified the key success factors contributing to their growth insights that Ecuador can leverage; and upon which we have based our recommendations .

01 - OVERVIEW OF ECUADORS' FINANCIAL SECTOR

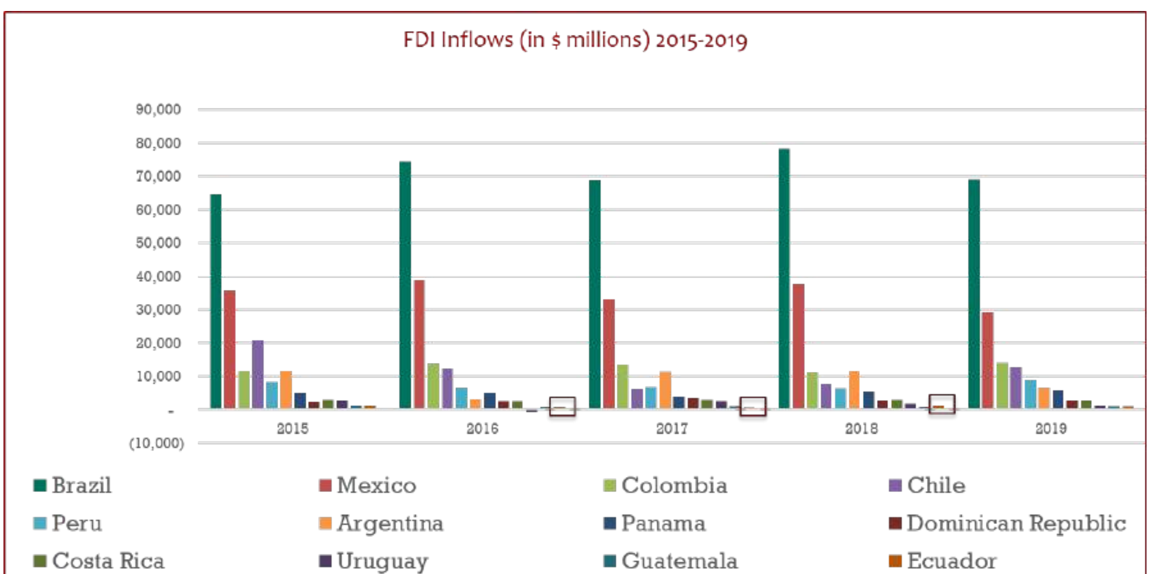
This section covers a brief overview of the current state of the economy in Ecuador, an overview of the financial ecosystem, Snapshot of the strengths, weaknesses, opportunities and threats that need to harnessed to achieve a repositioning for Ecuador in terms of Foreign Direct Investment attraction.





The above graphs show the current state of Ecuador's economy in relation to other countries within the Latin American region. The above shows the GDP of the top 10 and bottom 23 economies (lumped together) in Latin America. It also shows that Ecuador had a GDP of approximately $100 million in 2020 and was the 7th largest economy in Latin America. This alludes to the fact that in terms of economic strength, Ecuador should be reckoned with in the Latin America region. However, this is not the case as Ecuador is one of the least receivers of FDI in Latin America, falling behind even smaller economies in terms of GDP.

This raises some fundamental questions about why Ecuador is not able to attract FDI at a rate expected of an economy of its size.



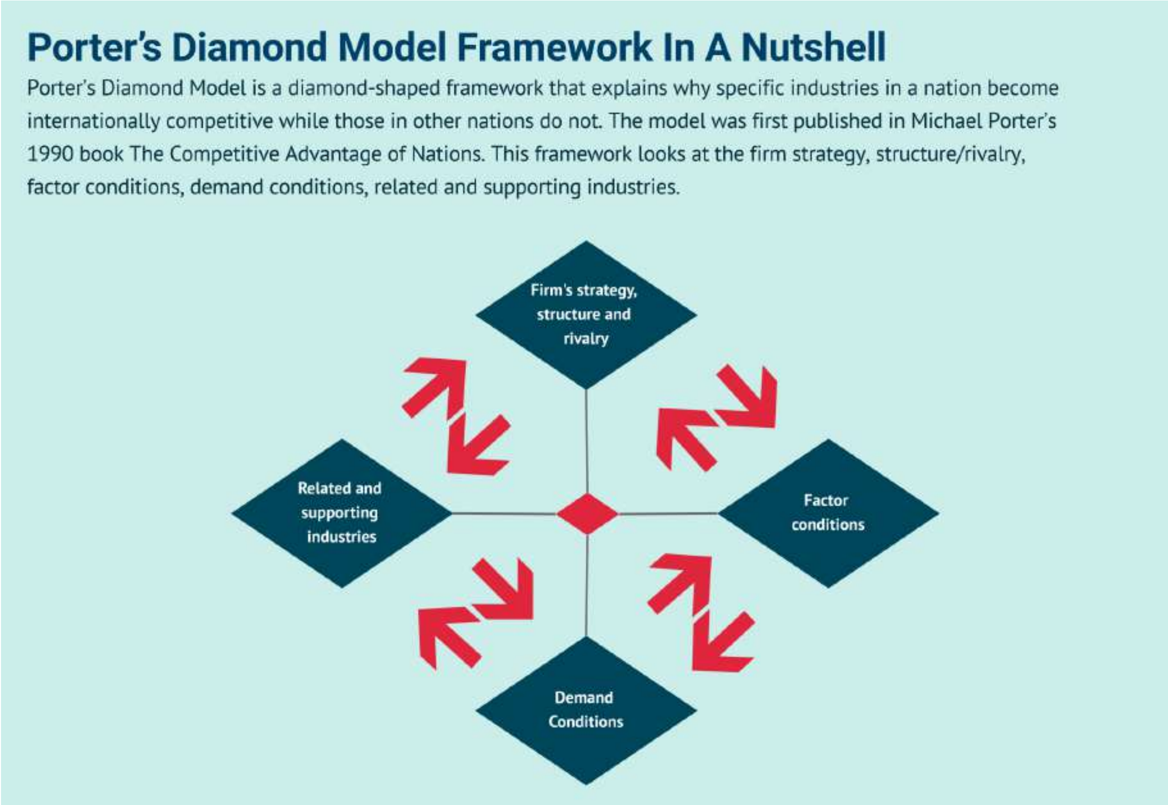
OVERVIEW OF ECUADORS' FINANCIAL SECTOR

The financial sector in Ecuador is one of the most significant service sectors and this sector has its fair share of the limited FDI attraction problems confronting Ecuador.

Before we dive deep into the questions of why Ecuador is unable to attract and retain FDI at a rate expected of an economy of its size and compared to other economies within Latin America, we performed a brief overview of the financial sector. This was done to highlight our understanding of this sector in relation to the overall economy. We performed a cluster analysis of the sector to identify if there industry specific reforms to be made to enable the attraction of FDI, we reviewed the strengths, weaknesses, opportunities and threats confronting the sector and the country as a whole. The work done here provides context for the discussions in the rest of the report.

The Analysis of Ecuador financial cluster was conducted using Porter's diamond model. We focused our analysis on the following areas:

Access to efficient and high-quality business inputs - ***Factor conditions***
Sophisticated and demanding local needs -***Demand conditions***
Availability and quality of suppliers influencing the ***Related and supporting industries and institutions***
Local rules and incentives that encourage investments productivity, which form the basis for Ecuador's ***strategy, structure and rivalry*** as a country and for the financial services sector as an industry sector within the country.



FACTOR CONDITION

Major factor inputs that drive financial sector growth are financial capital and skilled labor. Ecuador has a gross national savings rate of 25.5% of GDP. This is an indication of a favorable capital accumulation which can foster an increase in demand for financial services. According to the World Bank, about 78% of the total working-age population has a short-cycle tertiary education, a bachelor's degree or equivalent education level, a master's degree or equivalent education level, or a doctoral degree or equivalent education level. Skilled human resources is a favorable condition that provides the human capital needed for the effective and efficient management of financial institutions.

25.5%

Ecuador's has a gross national savings rate of 25.5% of GDP.

DEMAND CONDITION

The increase in demand for financial services provides a good foundation for the growth and development of the financial sector. Approximately 51% of the population has access to a bank account and banks hold in total USD 43.7 billion in assets. The use of credit and debit cards has been on the rise. As of April 2021, credit cards transactions grew from 3.7 million to 6.4 million representing a 133% increase. The rise in the demand for financial services presents an opportunity for financial innovation within the banking and fintech ecosystem and an opportunity to attract international financial institutions. Despite the increasing demand for basic financial services, there is a low demand for sophisticated products such as investment in mutual funds, the purchase of life insurance and other insurance products, equity investments, and stock trading, etc. These can be future investment opportunities in Ecuaodr's financial services space.

There are very limited options for investments on the Quito and Guayaquil stock exchanges. Foreigners require residency to open a checking account, and the five percent capital exit tax is a limitation to the free flow of financial resources, which is a disincentive to attracting foreign savings.

AVAILABILITY AND QUALITY OF SUPPLIERS, SUPPORTING INDUSTRIES AND INSTITUTIONS

The availability of supporting and related industries is essential for the smooth operation of financial services. There are international and national management consulting, tax and accounting firms that provide professional services to financial institutions to foster their strategic growth and expansion initiatives. Information technology is very important in the provision of financial services. However, access to the internet and telecommunications networks is a challenge, especially in rural areas, which results in people in these areas relying on cash transactions instead of using other electronic payment systems.

LOCAL RULES AND INCENTIVES THAT ENCOURAGE INVESTMENTS PRODUCTIVITY

The dollarization of the economy was a step in the direction of attracting investments in the financial services sector as it eliminated currency and exchange rate risk. Furthermore, the government has instituted several initiatives to attract, retain and promote investment.

In conclusion, the financial sector in Ecuador is largely healthy, and is well suited to receive FDI, however, the economy in general needs to be repositioned for FDI attraction, consequently, this report approaches FDI attraction from the point of view of the Economy as a whole and our recommendations are not limited to the financial services sector but are applicable to the economy as a whole.

HIGHLIGHTS OF THE SWOT ANALYSIS

S

Strengths

- Dollarized economy
- Healthy banking system
- Strong industries
- Economic reliance on services
- Established imports markets
- Skilled labor force

O

Opportunities

- Increasing demand for financial services
- High interest on credit (can be a source of attraction for capital management firms)
- Economic partnership with European Free Trade Association

W

Weaknesses

- High interest on capital
- Unavailability of capital
- Inefficient legal framework
- Entry barriers to trade
- Small capital markets
- Inefficient legal framework
- Poor business processes
- Corruption

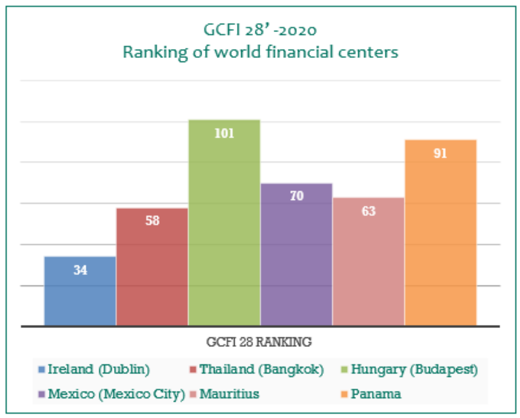
T

Threats

- Few foreign financial institutions and other providers of capital
- More competitive countries within the region
- High interest on credit – (competitive rates in other countries can dissuade potential investors from Ecuador)

02 - NATIONAL COMPETITIVENESS - GLOBAL CASE STUDY

In this section, we chose a diverse range of countries to provide insight into how nations across the globe stay competitive with respect to attracting foreign direct investment. We reviewed countries that have a significant influx of FDI within the Latin American region and countries from other regions that are both regional financial centers (per the Global Financial Center Index (GCFI) ranking) and recipients of a high level of FDI. We benchmarked Ecuador against these countries on various factors that have played significant roles in the development of the countries identified.



This review lays the foundation on which our recommendations are built as it unearthed the key drivers of the competitiveness of the countries examined. We performed a high-level review of how these countries fair using several economic competitiveness rankings across different topics like business environment, infrastructural development, economic openness, access to capital and strength of the capital markets. Finally, we took a deep dive into three countries: Panama, Thailand, and Ireland. We selected Panama for similarities to Ecuador as a country in the LATAM region and then considered Thailand and Ireland as they have emerged as financial centers in recent times.

Case study countries

PANAMA
THAILAND
IRELAND
MEXICO
MAURITIUS
HUNGARY

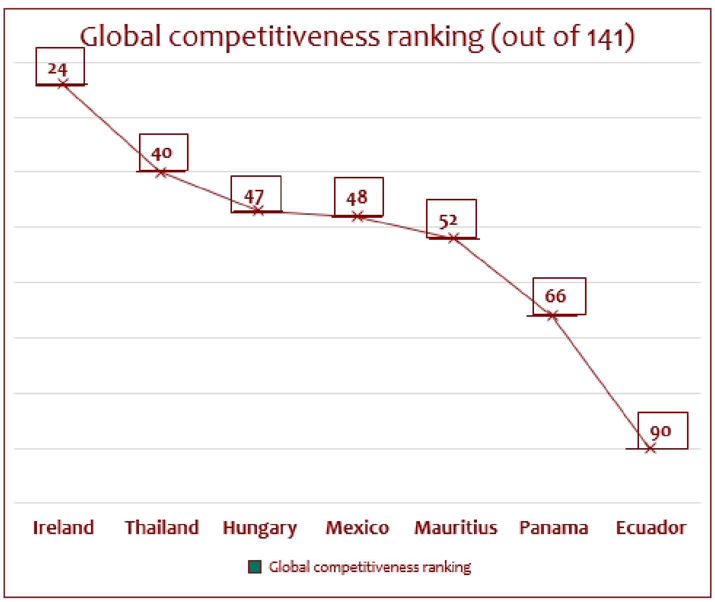
Global competitiveness

Before diving into specific details, we benchmarked these countries on how they compete globally. The global competitiveness scores are determined based on several factors, some of which we further examined in this report. This measurement is based on the premise that these factors determine the perceived attractiveness of different economies around the world. The competitiveness report is a year publication of the World Economic Forum. Refer to Appenix 2 for details of how global competitiveness is measured.

In addition to overall global competitiveness, we examined how Ecuador competes with the 6 case study countries on other factors such as;
- Taxation
- Ease of doing business
- Economic Openness
- Infrastructure
- Capital markets development
- Access to Capital

Global competitiveness ranking 2019

Total of 141 countries ranked - World Economic forum



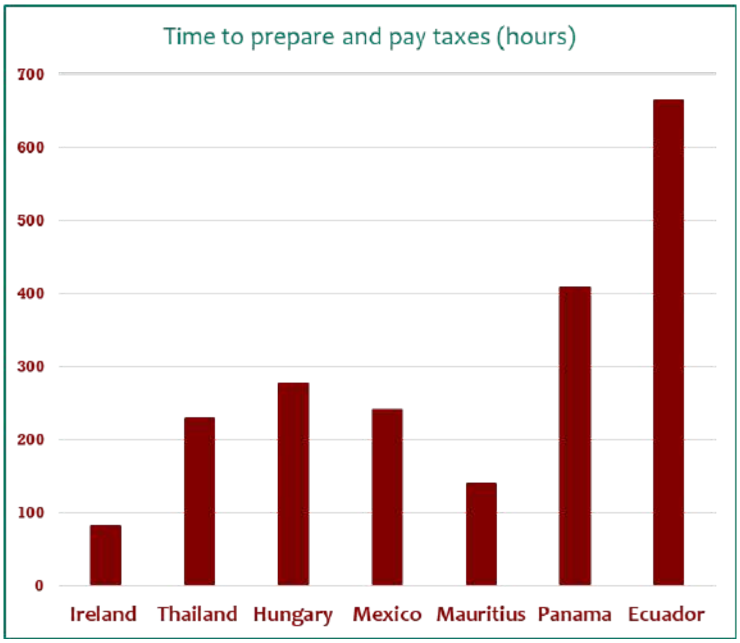
90/141 *Ecuador ranks 90 out if 141 countries in terms of global competitiveness*

Should global competitiveness be the only factor considered to make a foreign investments 89 other countries will more appealing than Ecuador. We further checked to see how Ecuador ranks in comparison to these other countries in the following section. The aim of this exercise is to identify factors that make Ecuador less competitive than the countries in out competitiveness analysis that are in many respects like Ecuador.

Taxation

Taxation is one of the tools that countries have used to strategically maintain global competitiveness . Competitive countries across the globe most often have a reputation for being tax friendly. Tax friendliness is measured in terms of tax rates, tax structure, tax incentives and tax remittances preparation processes. 3 of our 6 cases study countries have been described as some of the most tax friendly countries in the world by The International Tax Competitiveness Index for OECD countries, Hungary is ranked 13th, Ireland 19th and Mexico 33rd most tax friendly.

These countries have earned these spots because of several tax friendly initiatives, tax rate reforms, tax incentives to investors and user friendly tax filing process. Per the international Tax competitiveness index, countries with user friendly tax filing processes often have less than 100 hours and are largely electronic, less bureaucratic and very efficient. This increases perceived ease of tax payments.



13th

Hungary is the 13th Most tax friendly country in the world

19th

Ireland is the 19th Most tax friendly country in the world

664 *It takes an average of 664 hours to file taxes in Ecuador*

As shown in the chart above, it takes an average of less than 100 hours to file and pay taxes in Ireland, however Hungary is still ranked as more friendly because of lower tax rates in Hungary.

Besides an effective tax remittance process, economists believe that the lowering of taxes can aide economic growth. Although this remains a very controversial topic, the effect of lowering tax rates on the economy has been proven over time in different countries, for instance, lower corporate taxes have proven to have contributed largely to the rapid economic growth experienced in Hungary, with a corporate tax of 9%. Also in Ireland, tax rates were reduced to 12.5% indirect response to an economic downturn in the years prior and this aided a significant economic recovery in Ireland. That was not the unset of tax reduction in Ireland, the same strategy had been employed through the 1900s to achieve economic growth.

The graph on the left shows the rate of taxes paid as a percentage of profit in all the countries we benchmarked. This measures the effective tax rates in these countries.

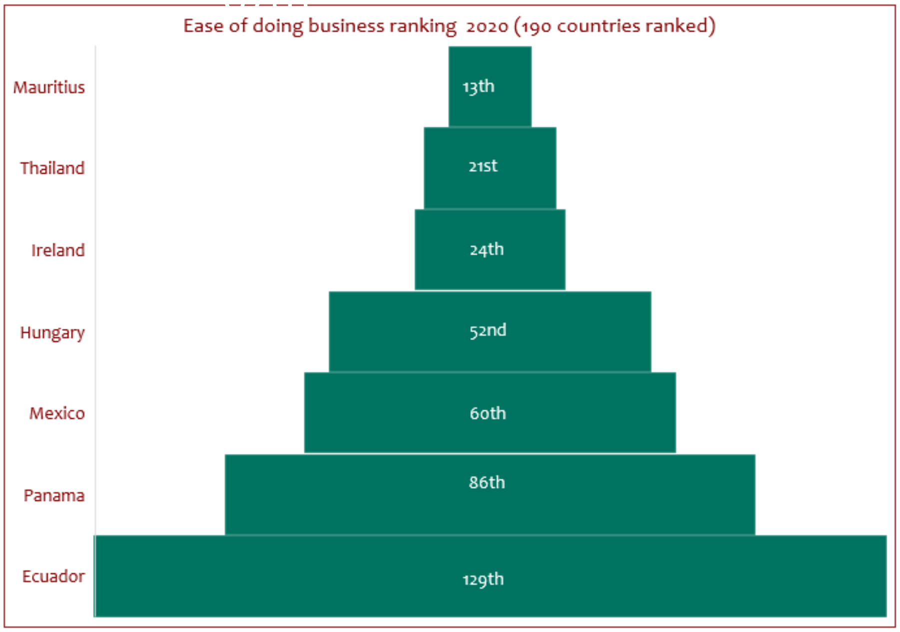
As noted in the graph, the most successful countries have a common theme which is low tax rates, except in Mexico and Thailand. These two countries have higher tax rates than Ireland, Hungary, Mauritius and Panama but they have lower have other substantive incentives to reduce the tax burden of companies, especially, foreign companies., in their country.

"Hungary has a corporate tax rate of 9% , the lowest in EU. Ireland follows closely with a tax rate of 12.5%"

Ease of Doing Business

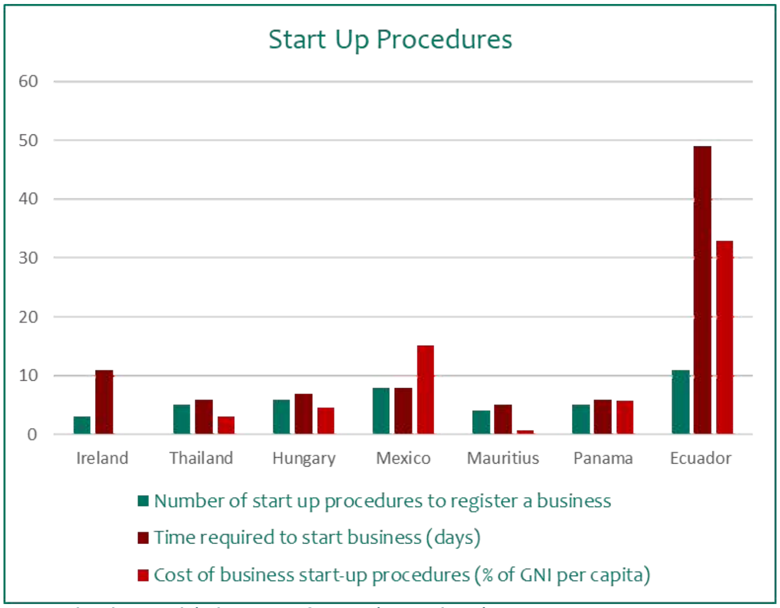
Doing Business presents quantitative indicators on business regulations and the protection of property and investors rights that can be compared across 190 economies.

Doing Business covers 12 areas of business regulation. Ten of these areas—starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency—are included in the ease of doing business score and ease of doing business ranking. Doing Business also measures regulation on employing workers and contracting with the government, which are not included in the ease of doing business score and ranking.



Ease of doing business is an important factor for economic growth and also a factor considered by Investors. Having a great business environment makes it easier to attract Foreign Investment.
Economies that score highest on the ease of doing business share several common features, including the widespread use of electronic systems including online business incorporation processes, have electronic tax filing platforms, and allow online procedures related to property transfers. They also have have sound business regulation with a high degree of transparency, with average scores of 12.2 (out of 15) on building quality control index, 7.2 (out of 8) on the reliability of supply and transparency of tariffs index, 24.8 (out of 30) on the quality of land administration index, and 13.2 (out of 18) on the quality of judicial processes index.

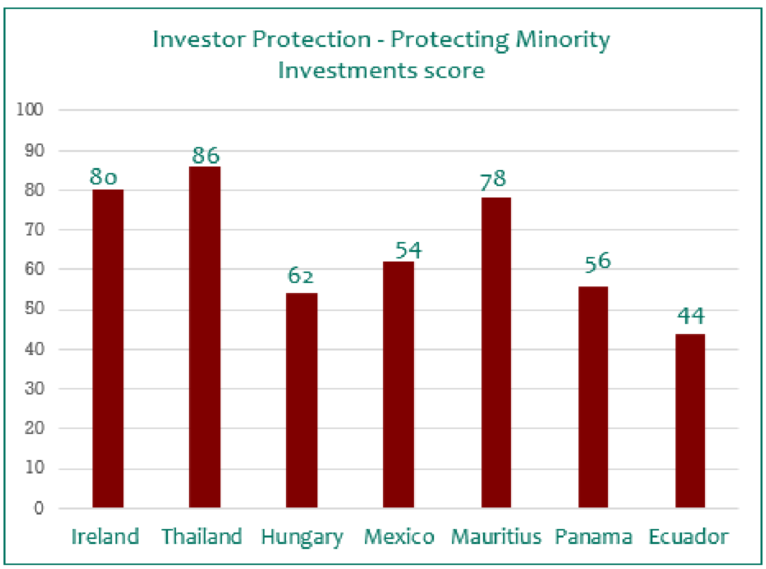
Countries with low scores, like Ecuador in this case, often have high bureaucratic business processes, inconsistent business laws and



Ecuador has a high cost of opening a business, too many processes to open a business and the highest time requirement

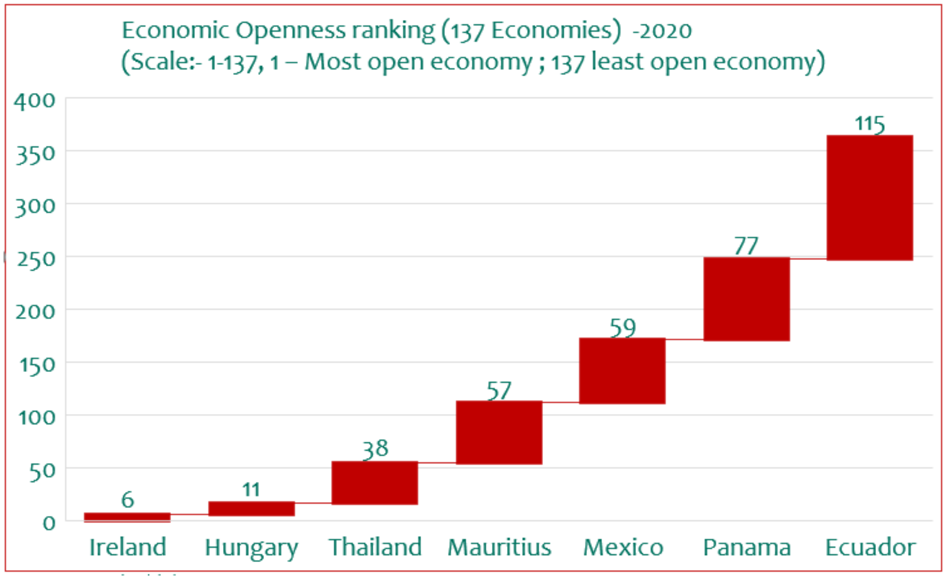
Business startup procedures are an important metric within the measures used to determine the ease of doing business. The graph on the upper left shows a summary of what it takes to start up a business in the countries that we reviewed. As expected, with these countries ranking high in ease of doing business ranking, their start up procedures and the associated costs are considerably low.

We also considered other aspects of the ease of doing business ranking, including labor market regulations, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, trading across borders, paying taxes, enforcing contracts and resolving insolvency and a common thing we noted is that highly successful and competitive countries ranked really high in most of these various categories and this increases the level of perception they have from the public in terms of doing business and whether they are a safe space for investors to consider in starting and operating businesses.



The graph above shows the ranking of our benchmarked countries in one of the other categories, Investor protection. Thailand ranks the highest on this list and rightly maintains a great reputation for investor protection, especially minority investors. This factor also contributes significantly to why investors consider Thailand a safe country to invest and run a business in.

Economic Openness ranking



Economic openness measures the level of trade an economy engages in with other economies. It is measured using the net of imports and exports of a country as a percentage of the GDP.

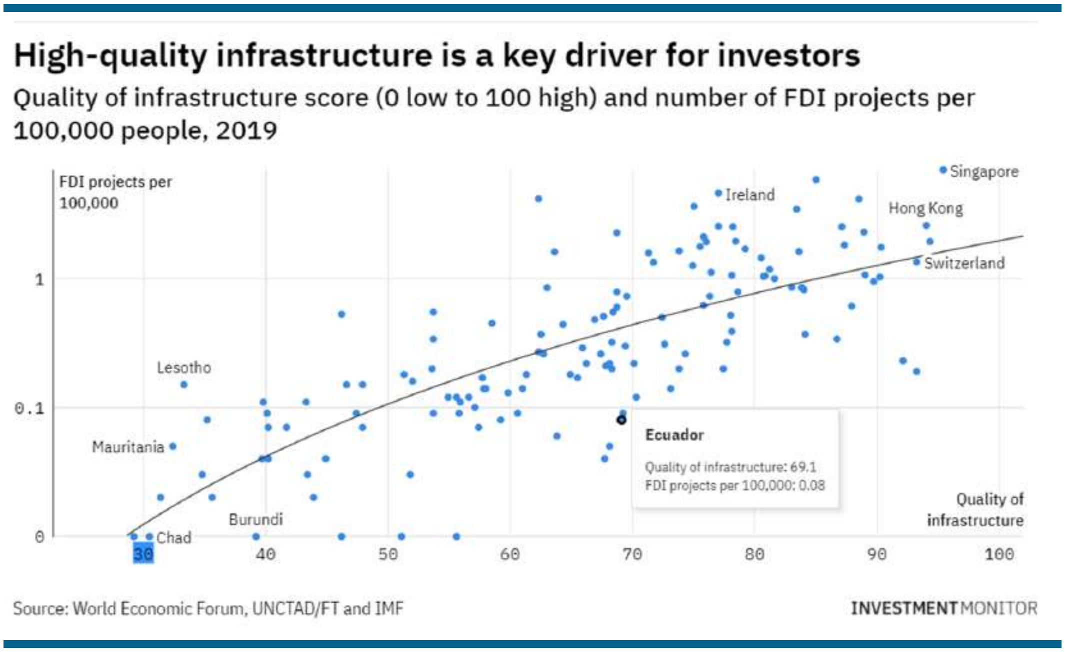
Countries with high scores on economic openness often have a good balance of foreign trade, both imports and exports. This level of global trade activity is achieved by a conscious effort and commitment to maintaining trade openness, existence of initiatives promoting free trade, e.g. free trade zones, participation in bilateral agreements with other economies and just general perceived readiness to integrate a country's economy with that of the rest of the world. Overtime, economists have ascribed some measure of economic growth to the degree of openness maintained by various economies and this factor is still as important as it was a century ago.

The above graph shows the ranking of our case study economies in terms of trade openness. A total of 137 economies across the world were ranked with 1 being the most open and 137 being the least open. Ireland ranks 6th globally showing a high rate of economic openness in Ireland. This is however not surprising given how Ireland has been receptive to international trade and its current position as a hub for almost all global technology and financial services companies seeking a place in Europe. Ireland also has a current affiliation and substantive participation in the EU, establishing itself as a foremost trade partner in the region. This posture has undoubtedly been a significant contributor to the economic growth consistently witnesses in Ireland.

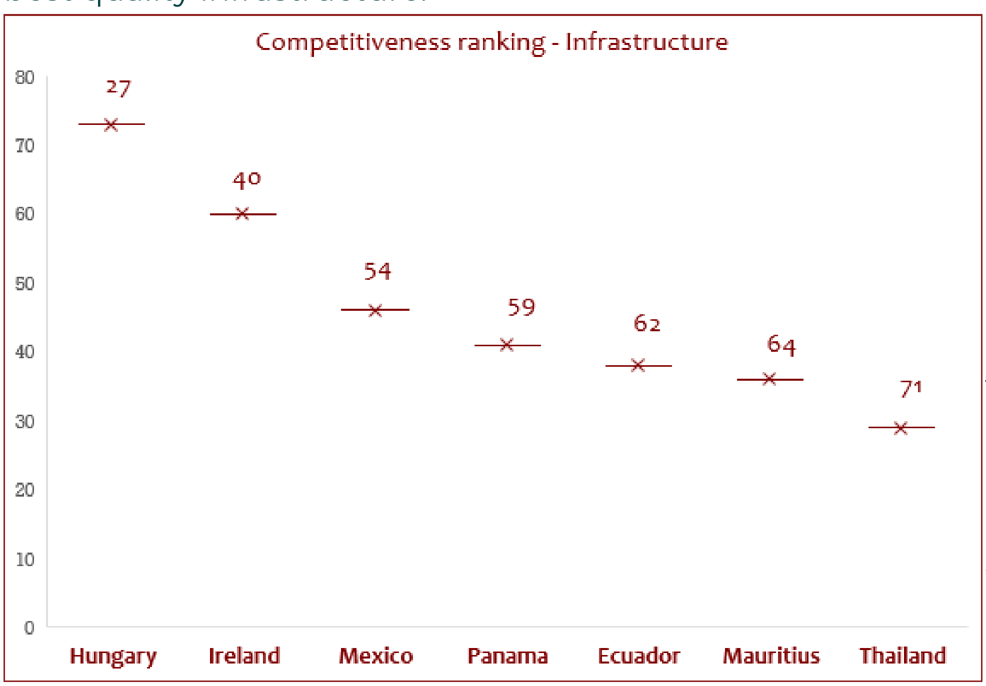
Like Ireland, the other countries are also fairly ranked due to their openness to free trade and participation in intercountry bilateral agreements.

Ecuador is ranked 115, and close to the bottom of the ranking for trade openness. This alludes to the fact that Ecuador as a perception amongst nations as not being a very open economy.

Infrastructure

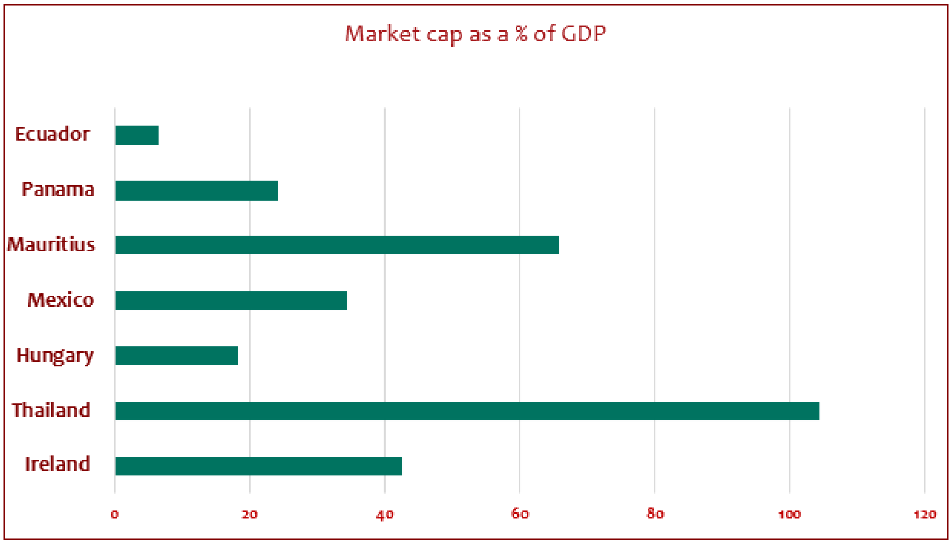


Infrastructural development is another pillar of economic growth, global competitiveness and attraction of FDI that cannot be overemphasized. Countries with high quality infrastructure have been consistently seen as high attractors of FDI for several reasons including the ease of business processes when aided by better infrastructure, especially digital infrastructure. That is not to undermine other infrastructural developments. Digital infrastructure makes part of a countries infrastructure make up and cannot be studied in isolation. The above picture shows the result of a study conducted by the World Economic Forum, United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund (IMF) on the role of Infrastructural development in attracting FDI. This study shows a strong and positive correlation between infrastructural development and FDI attraction with the highest number of FDI projects per 100,000 people in 2019 going to the countries with the best quality infrastructure.



We obtained the global infrastructure competitiveness ranking for our benchmarked countries and noted per this ranking that Ecuador is not doing badly in terms of general infrastructure in comparison to peers, however there is a gap with digital infrastructure that Ecuador needs to fill and this is not evident in the infrastructural spending over the past decade. Ireland despite being highly ranked has a $132 billion commitment to infrastructure over the next decade, especially digital infrastructure.

Capital Markets development

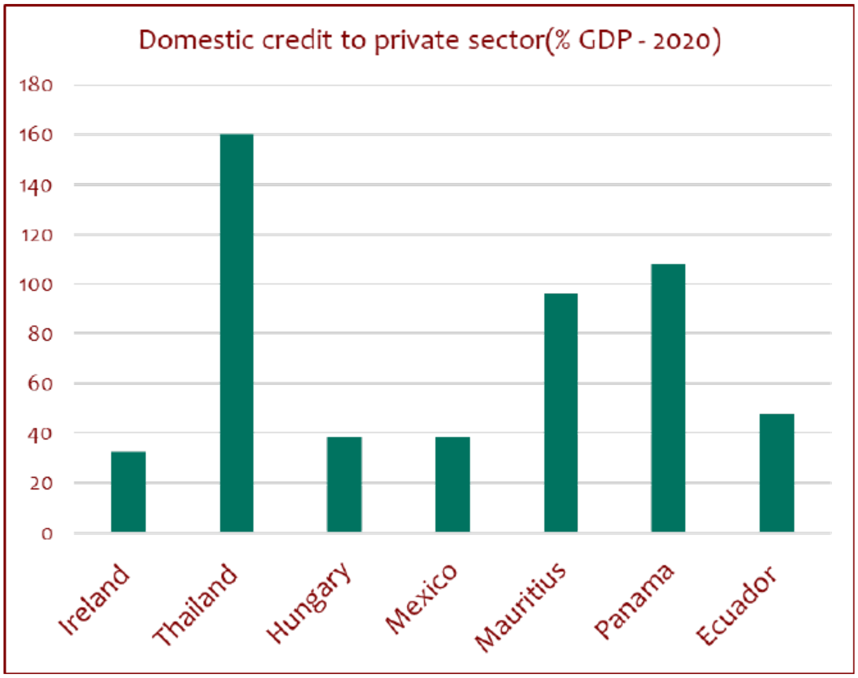


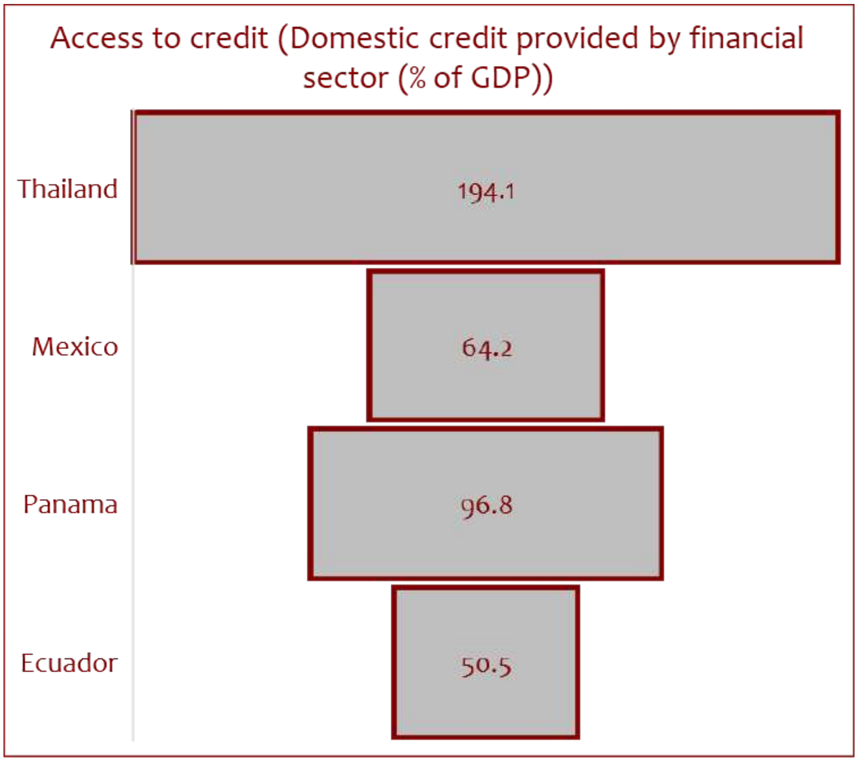
The size of the capital market, including bonds, stocks, over-the-counter derivatives, and diverse financial instruments, demonstrates the importance and significance of the financial centers, meaning there are sufficient financial instruments and opportunities for foreign investors. to invest in. This is measured by the value of the market capitalization of all listed entities in a country relative to the GDP. This is a measure of Investment availability in an economy and this also plays an influential role in the decision of whether to invest in a country or not. Countries are able to achieve a high capital market growth when conditions are created that encourage companies to list on the stock market.

The above graph represents the Market Cap as a % of GDP for our benchmarked countries and Ecuador in the year 2019., with Ecuador at about 6%. Although this value is at 10% in 2020, this is still very low and reflective of how small the stock market and of course the perception of limited investment opportunities as far as financial instruments are concerned.

Also connected to the capital markets in the strength of bonds issued by the government and other corporations as well as their credit worthiness of investments in the country typically measured by credit ratings. Asides the strength of the capital markets of the countries we reviewed as shown above, these countries also have high grade financial instruments and high credit ratings. A credit rating is used by sovereign wealth funds, pension funds and other investors to gauge the credit worthiness of a country, thus having a big impact on the country's ability to attract foreign investors. In the bond market, a rating agency provides an independent evaluation of the creditworthiness of debt securities issued by governments and corporations, large bond issuers receive high ratings and smaller issues typically won't get high ratings which reflects poorly on the quality of investments. The lower end of this spectrum is where Ecuador is, with fewer government bonds issued and consequently lower ratings. (*Refer to Appendix 3 for further details on credit ratings of public debts by the Ecuadorian government*).

Access to Capital





Domestic credit to private sector refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of nonequity securities, trade credits and other accounts receivable, that establish a claim for repayment. The first graph on the top shows credit available to the private sector, while the bottom graph shows total credit provided by the financial sector to both the public and the private sectors.

These metrices measure the strength of capital available for business funding within an economy and also to gauge the level of capital available to businesses to operate. Especially new businesses.

Countries ranking lower on this spectrum have less capital availability than the higher ranking ones and are perceived as better business and investment destinations just on the basis of capital availability, This encourages an investor to naturally be more attracted to these countries. This also encourages financial institutions to gravitate towards this countries as they are presented an opportunity to finance businesses and make profit. This is evident in countries like Thailand. Evidently, Thailand is doing well in providing capital for businesses to operate and this also ties well into the influx of banks as well as other investors into Thailand. Like Thailand, Ecuador needs to focus on improving the availability of capital for businesses to function and flourish. This will ultimately impact the ability to attract and retain FDI in Ecuador.

DEEP DIVE - PANAMA, THAILAND AND IRELAND

Having performed a benchmarking exercise on various drivers of FDI attraction at a high level in the previous section, In this section, we did a further and extensive study on three of our benchmark countries, - Panama, Thailand, and Ireland.
This was done to to uncover the details of the key factors identified and how they have specifically contributed to the growth and development of these countries.

PANAMA

Panama has been among the fastest-growing economies in Latin America, with the development of macroeconomic sectors in the country. The Panama Canal, which fostered trade among several regions within and outside Latin America, has been a significant driver of the economy. In addition to the Panama Canal, other factors have been identified as success drivers of economic growth in Panama, such as taxation, infrastructure, ease of doing business, economic openness, development of the capital markets and access to capital in Panama. The growth drivers of Panama's economy as a high attractor of FDI and as a financial center is not limited the factors listed, however, we will focus on the effects of these factors specifically in this study with the aim to understand how practices and polices influenced by these factors have played a pivotal role in the growth and development of Panama as a financial center and its ability to attract and retain FDI.

Panama Canal

TAXATION

Panama's journey to being a tax haven started in the early 20th century. The global oil price surge in the 1970s had a remarkable impact on Panama's tax reform. Although Panama is not an oil-producing country, the Panama Canal has always served as an energy transit between several countries and businesses. The Panamanian government made international transactions tax-exempt to promote offshore banking and passed legislation entrenching corporate and individual financial secrecy and substantial tax benefits, attracting foreign capital into the country.

Panama has the third-largest registration of International Business Companies (IBCs) amounting to over 350,000 companies. Companies operating in the Colón Free Trade Zone CFZ enjoy many trade advantages along with special tax incentives such as tax credits, depending on the number of Panamanian employees, and special income tax rates on foreign trade operations. These companies do not pay corporate income tax. Also, dividends paid on profits from foreign trade operations are subject to a 5% tax while from direct sales are subject to a 10% dividend tax which is all that most foreign companies operating in this region have to pay. This move was strategic for Panama in an effort to retain influx of FDI that the country naturally attracted due to influx of trade around the Panama canal.

Tax reforms have consistently played and continue to play an integral part in the development of Panama. The tax atmosphere makes Panama an attractive destination to foreign investors and companies alike making Panama a choice destination in Latin America.

The table below shows some favorable tax policies that make Panama very attractive.

SNAPSHOT OF SOME FAVORABLE TAX POLICIES IN PANAMA
Exemption of foreign earned income from local taxes
No taxes are imposed on offshore companies that engage in business solely outside of Panama
The republic of Panama has signed several double taxation treaties with several countries to avoid double taxation of foreign citizens and companies domiciled in Panama and it their countries of origin
Double taxation treaties cover income earned from dividends, capital gains, real estate and others
No taxes on interest income:- This encourages the desire to save and make investments
No taxes on issuance of corporate shares
No taxes on stock sale on transfer
No estate and gift taxes

EASE OF DOING BUSINESS

Panama has a reputation for being one of the easiest places to start and conduct business in Latin America. This reputation stems from the various reforms and conscious practices that Panama has in place to promote competitiveness. On startup procedures, Panama has straightforward procedures. There are no prior approvals or registration requirements to make direct foreign investments in Panama. There are also no residency requirements, a non-resident may setup a Panamanian business vehicle to operate or directly operate with a foreign entity. All that is required is recognition by the government of Panama as a legal entity.

Also in terms of corporate and business laws, Panama has high grade investor protection laws including corporate secrecy laws. Panama currently has the best corporate secrecy laws in the world, revelation of banking information without consent in a crime punishable by law. Panama's business laws make it extremely difficult to sue or seize assets, before suing a company for instance, you have to post a bond court of 20%-30% of the claim value, this makes it extremely difficult except in very substantial claims. Panama also offers "bearer" shares where shares can be held anonymously, although these cannot be issued for new company formation. In addition to these solid corporate laws, Panama has some of the most liberal regulations in business across the world, particularly in the banking sector.

In early 1998, Panama joined the World Trade Organization (WTO) and had its Banking Reform Law approved by the legislature which resulted in the dismantling of the central bank. The implementation of the Banking Reform Law was followed by a significant increase in GDP. Due to its openness to foreign financial institutions, use of dollar currency, low inflation, and relative political stability. This remains one of the strengths of the banking system; its exposure of the national banking system to both foreign and domestic players. According to the International Monetary Fund (IMF), the national banks in Panama have exposure in over 15 countries. There has been a significant increase in capital coming from Europe into the Panamanian private banking sector, which is triggered by the strength of the local financial system. Banks and companies looking to expand into Central America choose to enter the Panamanian market because of the strength of the banking system in security, openness to foreign institutions, and ultimately its favorable tax regulations. It is against the law for Panamanian banks to share any information about offshore bank accounts or account holders, except under special circumstances instigated by the Panamanian authorities. Other banks elsewhere in Latin America see Panama as an attractive market opportunity.

In addition to the above, Panama ranks really high in terms of ease of getting and registering a property, getting electricity, getting construction permits, getting credits, and several other factors promoting ease of doing business, although they fall short in the areas of enforcing contacts, and resolving insolvency. All these contribute to Panama's reputation as an attractive destination for businesses.

ECONOMIC OPENNESS

Panama is a member of several trade and economic organizations all over the world including the World Trade Organization (WTO) which it joined in early 1988. Panama also has a free trade agreement with most big economies in the world. Panama signed a trade agreement with the USA in 2012 and the European Union in 2013. Panama is a member of the Pacific Alliance, a forum of 42 other countries including China, Singapore, South Korea and others. Panama's trade agreements helps to liberalize and facilitate trade between Panama and these partner countries. In addition to all these, Panama has 21 bilateral investments protection agreements with the United Kingdom, Netherlands, Switzerland, Spain and others.

Beyond membership in these trade organizations, Panama grants immediate residency to foreigners from 22 countries with rights to work, establish a business and engage in professional and economic activities thus maintaining a posture of being open to economic activities by foreign individuals and companies.
Also, Panama is home to the Colon free trade zone, the largest in the free trade zone in the Americas and the 2nd largest in the world, the Panama Pacifico Special Economic Zone, and 16 other “free zones” (11 actives zones and five in development)

Panama also has a fair balance of trade with about as much import as export. With balance of import and export trade at 84.16% of GDP in 2019.
To continue to facilitate and promote trade in Panama, the Ministry of Foreign Affairs started the ProPanama initiative in April 2021, through this initiative, Panama continues to provides investments information to the public and consciously seeks investment opportunities into Panama.

INFRASTRUCTURE

Infrastructural development has undoubted fueled economic growth in Panama, the major source being the Panama Canal, which was constructed more than a century ago. Roughly $270 billion worth of cargo crosses through the canal each year, yielding about $2 billion annual revenue for the country, of which approximately $800 million goes into Panama’s General Treasury annually. The Panama Canal serves more than 140 maritime routes to over 80 countries, which has attracted foreign investment into the region.

Construction of various infrastructure has become a key economic driver due to continuous investments by the government of Panama. In 2013, the Panamanian government invested tens of billions in infrastructural projects which included the expansion of the Panama Canal (USD 5.2bn), the building of a metro line (USD 2.2bn) which was the first in Central America, implementing a metro bus system, and an improved highway network (USD 1bn) to Tocumen International Airport.
These developments have driven economic growth over the years and solidified Panama as a major logistic hub in the region.

In addition to other basic infrastructure, Panama has concerted efforts focusing on digital infrastructure as well. As part of it's commitment to digital infrastructure development, Panama is a full participant in the WTO Information Technology Agreement. In 2021, Panama received a loan of $350 million from Latin American development bank, to finance digital infrastructure in a move to becoming a digital hub in Latin America and improving infrastructure for fintechs, a budding industry in Panama.

CAPITAL MARKETS DEVELOPMENT

Panama has a full-fledged and well regulated capital market that started over 20 years ago with a focus on trading government bonds. The stock exchange has grown over the years to trading stocks, corporate debts and government securities from strictly trading government bonds when it was first started.
To establish the capital markets, Panama opened up its stock exchange to foreign companies without any difficult conditions and provided incentives to list.

The Panamanian stock exchange is overseen by Superintendency of Capital Markets of Panama - SMV. Per the regulation of the SMV, there are no minimum size limit, trading record, working capital or free float requirements to register any securities with the SMV for public offering or trading. Companies may issue securities on a non-registered basis if the offer is exempt from registration under the Securities Act. This gives a lot of autonomy on the Panamanian Stock exchange and has promoted the growth of the capital markets and ultimately financial services sector and the economy at large that have seen significant growth as a result of growth of the capital markets.

ACCESS TO CAPITAL

The presence of financial institutions in Panama spurred by increased activity in the canal region has also resulted in a good level of capital and funding for business ventures in Panama.

Panama is home to over 100 financial institutions making the second largest banking system in the world.

Bank lending from Panama's well-developed banking sector is relatively efficient and is the most common source of financing for both domestic and foreign investors, offering the private sector a variety of credit instruments. The free flow of capital is actively supported by the government.

SUMMARY

TAX	• Tax credit for payment of foreign taxes • Tax incentives for relocating headquarters and manufacturing plants of multinationals to Panama • Imposes no taxes on income earned outside Panama
EASE OF DOING BUSINESS	• Simple start up procedures - Physical presence not required • Strict privacy laws which protect banking and corporate business • No restrictions on company ownership and foreign capital • Flexible corporation laws
ECONOMIC OPENNESS	• 2nd largest duty-free trade zone • Panama Canal links Pacific & Atlantic oceans with over 15,000 ships crossing each year
INFRASTRUCTURE	• Public infrastructure investments of $132 billion in public infrastructure and capital works from 2018-2027, With key focus on Enterprise, skills and Innovation capacity (amongst others)
CAPITAL MARKETS	• International Stock exchange – Open to foreign investments • Heavily traded government bonds • Registered funds managers can operate from anywhere in the world
ACCESS TO CAPITAL	• World's second largest banking system with over 100 institutions

THAILAND

Thailand has experienced rapid growth in the last four decades, moving from a low-income country to an upper-middle-income country in the early 2010s. The successful development has benefited the country in many aspects: millions of jobs have been created, the poverty rate has dropped considerably from about 60% in 1990 to 7% in 2020, and education levels have increased.

Urbanization and industrialization, along with a series of policies focused on promoting export and attracting foreign investment are the main drivers of the impressive progress in Thailand.

Thailand started to adopt an open economy policy in the 1960s. In 1961, the national government published its first Social and Economic Development Plan, concentrating on an import-substituting Industrialization strategy to expand the economy. From 1960 to 1996, the annual GDP growth rate was around 8% on average. The Asian Financial Crisis hit the country in 1997, resulting in a severe economic recession. Thailand recovered from the crisis quickly because of then Prime Minister Thaksin Shinawatra's Economic Domestic Policy, and the GDP growth rate rebounded in just two years. From 1999 to 2015, Thailand's economy grew steadily, at an annual GDP growth rate of around 5%. The economy kept growing until 2020 when the COVID-19 pandemic hit.

The development path of Thailand from the 1960s to the 2010s is unquestionably remarkable. We believe the success of Thailand could bring some insights to Ecuador as it seeks to attract foreign investment and become a regional financial hub.

TAXATION

Thailand's Board of Investment (BOI) is an investment promotion agency that provides tax and non-tax incentives for foreign companies in targeted industries. The six targeted industries are agriculture and agro-industry, alternative energy, automotive, electronics, information and communications technology (ICT), fashion, and value-added services including entertainment, healthcare, and tourism. Tax incentives include the exemption or reduction of import taxes duties, a juristic person’s tax and dividends, and double deductions on the cost of transportation, electricity, water, and project infrastructure installation. The new Customs Act in 2017 also significantly eased customs procedures and brought transparency in the country’s customs law. Other incentives allow foreign companies to hire foreign skilled workers and experts, and acquire express non-immigrant visas and work permits. These policies have contributed to Thailand becoming the second home for numerous global multinational enterprises and a supply chain hub for major industries.

Some of the tax incentives available in Thailand include;

- Exemption on import duties on imported machineries, raw and materials imported for manufacturing for export, import duties for items imported for R&D activities
- Exemption from Company Income Tax for up to 15 years depending on the promoted activity, location or applicable law
- Double deduction from taxable income of the cost of transportation, electricity, and water supply for 10 years from the date on which revenue is first earned on the business activity.

EASE OF DOING BUSINESS

Thailand has a reputation as one of the most friendly business destinations in the world. The US News and World in 2020 ranked Thailand the best country for starting a business considering the following 5 attributes; affordability, bureaucracy, low manufacturing costs, global connection and access to capital. Business registration in Thailand can be completed in as few as 2-3 days in an online process that starts on the website of the Department of business development of the Ministry of Commerce in Thailand.

Additionally, business legislation in Thailand is clear, consistent and easy to follow and this has promoted the ease of doing business in Thailand.

More recently, in 2019, Thailand significantly improved its rankings in dealing with construction permits from 67th to 34th and from 15th to 3rd in protecting minority investors, this was achieved by continuous reforms to doing business in Thailand.

ECONOMIC OPENNESS

Thailand is the 2nd largest economy in Southeast Asia and a participant of several bilateral free trade agreements with 18 countries across the world, and membership in the ASEAN free trade area, a trade bloc agreement by Association of Southeast Asian Nations supporting local trade and manufacturing in all Southeast Asian countries. Participation in these FTAs allow businesses to engage in low to free tariff trades.

To further open its economy to foreigners, Thailand has the Foreign Businesses Act (FBA), governing the operation of foreign businesses in Thailand.

Thailand also has an existing treating of Amity with the US that enables US citizens and US businesses incorporated in Thailand or the US to operate like Thailand based businesses, and exempts them from restrictions that may be imposed by the FBA.

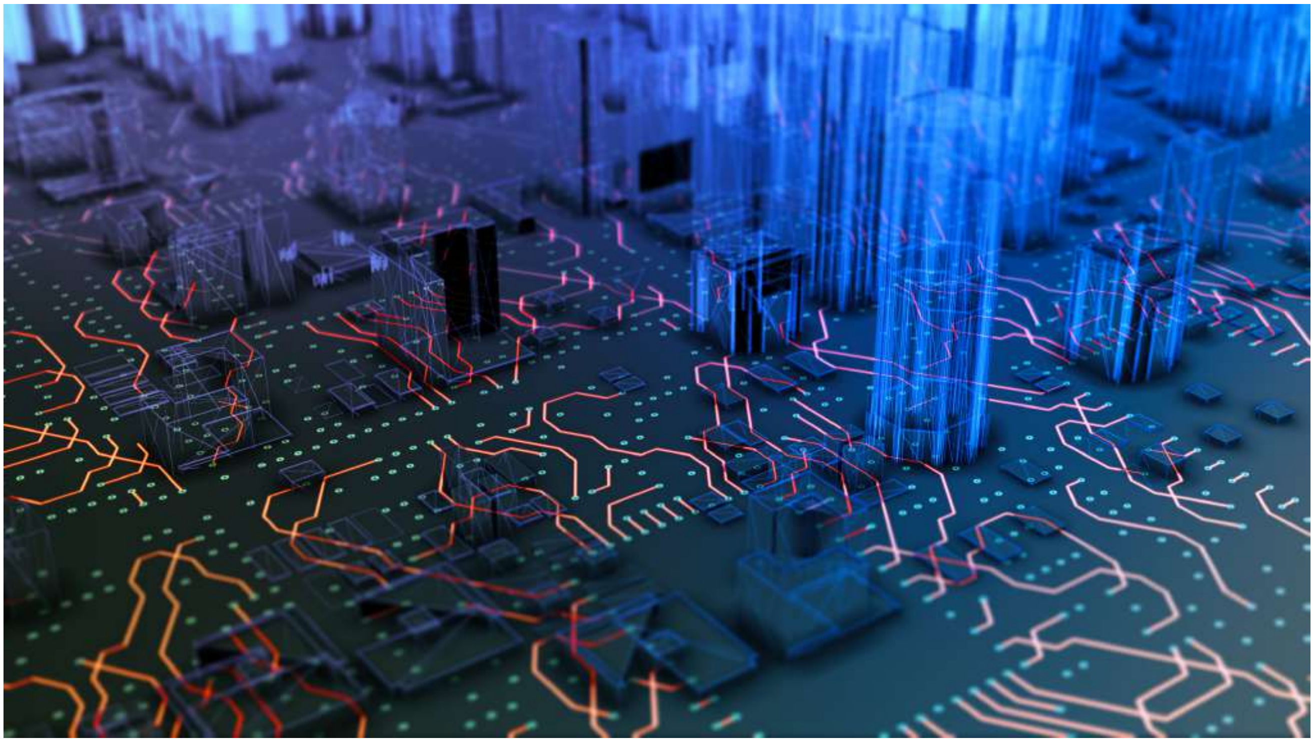
Thailand adopted an Important Substitution Industrialization (ISI) policy at its early development stage in the 1960s. ISI is an economic theory adhered to by developing countries to decrease their dependence on developed countries by focusing on the incubation of domestic industries and local economies to become self-sufficient. In the 1970s, Thailand was gradually transforming to concentrate on exports of manufactured goods. Manufactured goods exports now comprise over 60% of the country's total merchandise exports.

INFRASTRUCTURE

The government of Thailand has been emphasizing its digital development for several years through its focus on the Thailand 4.0 economic model, which seeks to move the country past previous economic development models which focused on agriculture (1.0), light industry (2.0), and advanced industry (3.0). The four main objectives of Thailand 4.0 are economic prosperity, social well-being, raising human values, and protecting the environment. Thailand has invested Baht 15 billion ($445 million) to launch a country-wide village broadband network to provide affordable high-speed internet to over 25,000 villages across Thailand.

Another major development project is the Digital Park Thailand, which supports economic development by facilitating access to a submarine cable system, landing station, and data center.

Additionally, the National Science and Technology Development Agency (NSTDA) has established the Software Park Thailand in Nonthaburi to support and strengthen Thailand's software entrepreneurs' competitiveness by promoting technology transfers, providing courses for the training of IT professionals, supporting local and international collaborations, and providing office facilities and rooms for conferences, meetings, and training for software companies.



CAPITAL MARKETS DEVELOPMENT

Thailand has a developed and strong capital markets with stocks and bonds market accounting for 85% and 80% of the country's GDP respectively. As of 2020, Thailand stock exchange ranked 25th globally in terms of market capitalization of companies listed thereon. The growth and development witnessed in the Thailand Stock market was enabled by the openness of the market to foreign investors and foreign institutions listing on the market. Foreign trade accounts for over 40% of the Thai stock market and this is due to continuous efforts made by the government and regulator to make the stock market more attractive including but not limited to improving operating efficiencies to support stakeholders, expanding products and services, further developing IT infrastructure to reduce costs, integrating Environmental, Social, and Governance (ESG) considerations into the operations of listed companies, and developing an educational platform to provide online financial knowledge to the general public.

In 2019, the Thailand Capital Market Development Fund was established to promote the sustainable development of Thailand's capital market across industries.

ACCESS TO CAPITAL

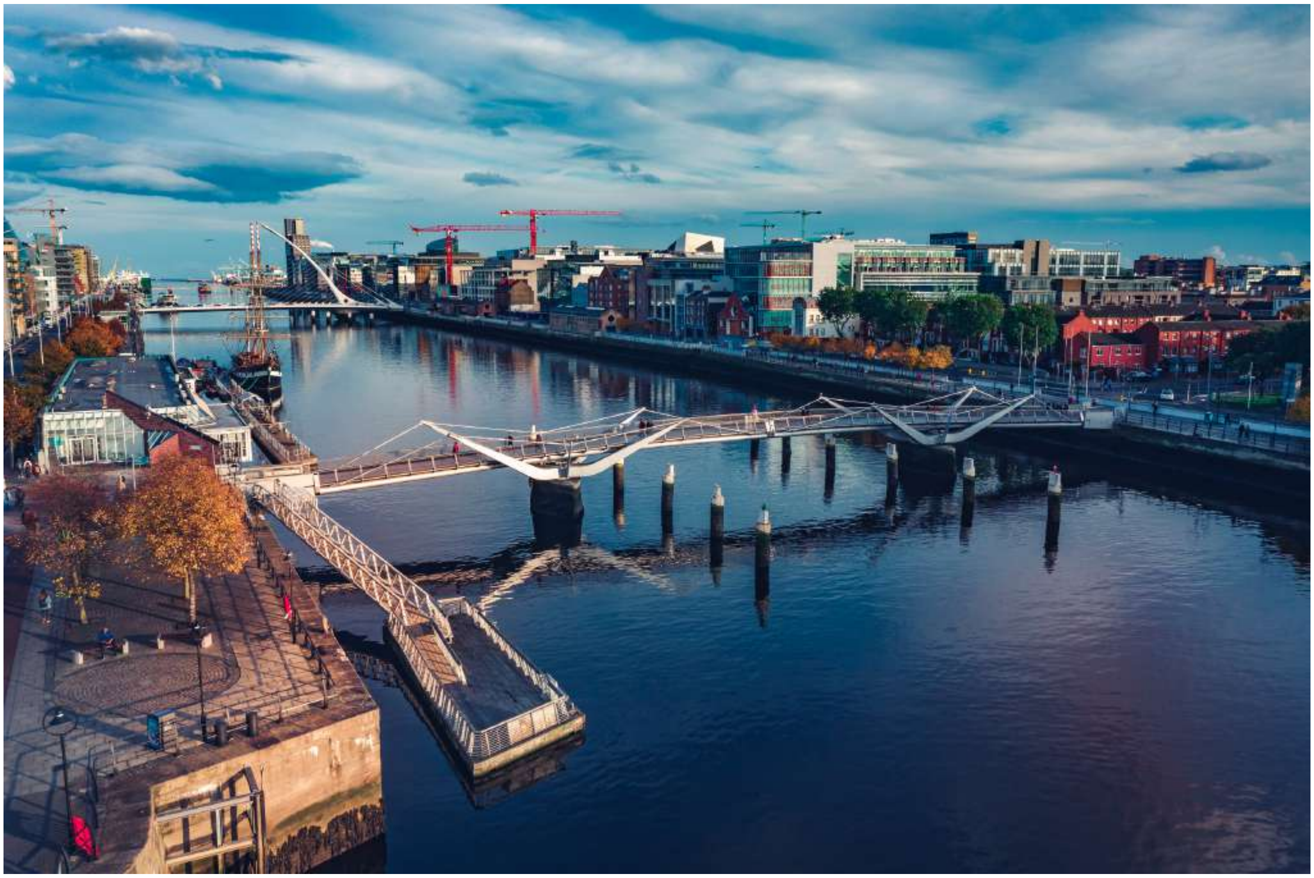
Thailand also has a strong and established financial services sector, that has aided the provision of capital for business funding in the country. In addition, Thailand has a strong network of local providers of funding that are not financial institutions. These bodies also contribute substantially to the availability of credit in Thailand, especially rural Thailand.

SUMMARY

TAX	• Corporate tax rate – 20% one of the lowest in Southeast Asia • Tax holiday (complete/partial exemption from CIT) of up to 10-15 years on major industries • Exemption from import duties on items used for R&D purposes
EASE OF DOING BUSINESS	• Supportive government policies • Simplification of business process - Digitalization
ECONOMIC OPENNESS	• Low tariff/ tariff free trade with 18 different nations, including Australia, China, New Zealand and South Korea
INFRASTRUCTURE	• Sophisticated digital infrastructure • Constant development of IT infrastructure to reduce costs and streamline business processes • Excellent transport and logistics infrastructure facilitating business with the CLMV (Cambodia, Lao PDR, Myanmar and Vietnam) sub- region.
CAPITAL MARKETS	• Strong capital markets – Stock and bond markets account for 85% and 80% of the GDP
ACCESS TO CAPITAL	• Presence of strong financial institutions

IRELAND

Ireland is well known for its Celtic Tiger story, which refers to the significant boost in the Irish economy achieved as a result of implementing one or more of the factors influencing FDI attraction. Ireland's low corporate tax rate, set at 12.5%, dates back to 1956. That it has remained in place over six decades is indicative of its success. In addition, Ireland established the International Financial Services Center in 1987 to consciously build and manage the regulation of the financial services industry in Ireland, ensuring ease of doing business through the enactment of favorable banking laws. This move strengthened the business environment in Ireland and attracted a lot of companies and financial institutions to Ireland. Since then, Ireland has seen a constant increase in FDI with total FDI inflows in excess of $2 trillion to date



TAXATION

Ireland has a tax system that encourages foreign businesses to open offices in Ireland to save on corporate taxes. With a relatively low corporate tax rate and the use of the worldwide tax system with relief for foreign tax credits, Ireland attracts top firms in every industry.

Other taxes include value-added and capital gains taxes. The overall tax burden equals 22.3 percent of total domestic income. Government spending has amounted to 25.1 percent of total output (GDP) over the past three years, and budget surpluses have averaged 0.02 percent of GDP. Public debt is equivalent to 58.6 percent of GDP. The low tax burden on the firm and base erosion and profit shifting, which enables Irish firms to pay between 0 % and 5% effective tax rate, is a strong incentive for service-oriented companies whose customers are transnational to locate in Ireland. Ecuador can replicate this by advancing a similar tax structure to technology companies with an interest in Latin America and Africa.

EASE OF DOING BUSINESS

Strong IP protection laws:- Intellectual property rights in Ireland facilitate production for the rest of Europe. The presence of the largest tech companies and the private and public partnership agreements in places makes this a unique selling point for Ireland. Companies easily file for product patency extending initial trade rights and brand equity into Europe through Ireland.

The €500m Disruptive Technologies Innovation Fund (DTIF) supports collaboration between enterprise and the public research system by providing investment in the research, development & deployment of disruptive technologies and applications.

Education and Knowledge Development in Ireland:- Ireland takes a systematic approach to skill development to support the companies in Ireland. Almost 30 percent of students in Ireland are enrolled in Science, Technology, Engineering, and Maths (STEM) courses. Ireland has a tailored initiative to ensure that the country's available workforce can support companies' business needs. Technology Skills 2022 is Ireland's third ICT skills action plan and is a collaborative partnership between the government, the education & training system, and industry to meet Ireland's ICT skills needs. Springboard+ provides over 9,000 free places in higher education courses in areas of identified skills needs to eligible applicants, whether they are employed, unemployed, or re-joining the workforce. Skillnet Ireland aims to increase participation in enterprise training and workforce learning.

It currently supports over 16,000 companies nationwide and provides learning experiences to over 55,000 trainees. Ireland is targeting a doubling of the lifelong learning rate by 2025 under Future Jobs Ireland.

Ireland ranks first globally for attracting and retaining international talent. Companies recruiting from outside the EU can utilize streamlined employment permit applications under Ireland's Trusted Partner Initiative. In Q2 2019, there were 380,000 (16.5% of total employment) non-Irish persons employed in Ireland. Proportionally Ireland has the 4th highest international workforce in the EU. Companies operating in Ireland have access to a labor pool of almost 250m people from across the EU.

ECONOMIC OPENNESS

As a member of the European Union, Ireland has forty-five preferential trade agreements in force. The trade-weighted average tariff rate (common among EU members) is 3 percent, with 639 EU-mandated nontariff measures in force. A commitment to the facilitation of global investment flows is well institutionalized.

In its efforts to deepen engagement and integration with the global economy, Ireland joined the International Monetary Fund and the World Bank in 1957.

Ireland is home to over 1000 multinational companies, a testament to the openness of the Irish economy to foreign companies and investors.

Economic focus on developing exports;

The country is one of the largest exporters of pharmaceuticals, medical devices, and software-related goods and services globally.

This is seen in the considerable export to personnel volume in pharmaceutical, ICT, and agro products. The pharmaceutical sector employs approximately 50,000 people and is responsible for 55 billion euros of exports. A number of these companies are based in County Cork, at Little Island and Ringaskiddy. The software sector employs approximately 24,000 people and contributes 16 billion euros to the economy. Ireland is the world's second-largest exporter of software. The top 10 global technology firms have operations in Ireland, including Apple, Google, Facebook, and Microsoft. Ireland is home to over 900 software companies. Exports play an important role in Ireland's economic growth.

There are 1,200 directly employed in leasing, with Irish lessors managing more than €100 billion in assets. This means that Ireland manages nearly 22% of the fleet of aircraft worldwide and a 40% share of the global fleet of leased aircraft. Ireland has 14 of the top 15 lessors by fleet size

INFRASTRUCTURE

Ireland's infrastructure, although not as sophisticated as many other developed nations, sustains the production and exportation for consumption around the world. Ireland has an extensive road and rail network that facilitates the movement of major products from everywhere in Ireland to various ports of transfer abroad.

Infrastructure investment in 2019 was 3.5% of national income, placing Ireland in the top 10 European countries for the level of public investment (EU average 2.7% GDP in recent years). In addition, Ireland has committed €116 billion in public infrastructure, and capital works under the National Development Plan 2018-2027. The plan focuses on ten strategic investment priorities: enterprise, skills and innovation capacity, housing and sustainable urban development, the national road network, environmentally sustainable public transport, and climate action. As a result of a focused and sustained investment of approximately €13.6 billion in national roads between 2000 and 2010, Ireland now benefits from a high-quality interurban motorway network.

With an asset value of roughly €32 billion, Ireland's national roads network provides for safe and efficient travel and the fast and reliable movement of freight. Under the National Development Plan, a further €6.6 billion will be invested in national routes by 2027.

The Republic's extensive network of public roads connects all parts of the country. As of 31 December 2013, there was a total of 7,959.309 km (4945 miles) of national roads: of which 5,305.56 km (3297 miles) were primary national routes (including motorways), and 2,653.749 km (1649 miles) were national secondary routes.
Ireland has an extensive network of rail infrastructure comprising approximately 1,660 kilometers of active track. The network provides strategically important connections between Ireland's five cities, Dublin, Cork, Limerick, Galway, Waterford, and other critical urban centers with solid regional functions. The network operator is currently progressing plans to procure up to 600 electric carriages, ensuring Ireland has one of the most modern and efficient rail networks in Europe.

Ireland enjoys extensive air connectivity with Asia, Europe, and North America through a network of international airports located across the country. With flights to almost 200 destinations in 43 countries, Dublin Airport offers excellent air connectivity options. Cork Airport offers more than 50 routes, while Shannon Airport serves over 31 destinations. In addition, the only US Pre-Clearance facilities in Europe are located at Dublin and Shannon Airports, offering a key advantage for transatlantic travel. Agreement to expand these facilities was reached in 2019.

Ireland Boost of ICT Digital Nation.

The economy shifted from agriculture to a knowledge economy, focusing on services and high-tech industries. Economic growth averaged 10% from 1995 to 2000, and 7% from 2001 to 2004. Industry, which accounts for 46% of GDP and about 80% of exports, has replaced agriculture as the country's leading sector

The ICT sector employs over 37,000 people and generates 35 billion annually. The top ten ICT companies are located in Ireland, with over 200 companies in total. A number of these ICT companies are based in Dublin at developments like the Silicon Docks.

This includes Google, Facebook, Twitter, LinkedIn, Amazon, eBay, PayPal, and Microsoft, several of which have their Europe & Middle East headquarters in Ireland. Others operate their European headquarters from Cork, including Apple, EMC, and Johnson Controls.

Though vastly improved during the 1990s by grants of I£6 billion in European structural funds, A late 1990s report commissioned by the Irish Business and Employers Association (IBEC) estimated that a further I£14 billion would have to be spent to raise the quality of the country's infrastructure to generally accepted European levels. Ireland's share of European structural funds for 2000 to 2006 has decreased to approximately I£3 billion, but increased government spending and planned joint public-private funding of projects should make up the shortfall.

CAPITAL MARKETS DEVELOPMENT

Ireland stock exchange was established in 1799 and has been open to various types of investments on the market from stocks to bonds and other viable financial instruments. The market has experienced continuous growth since inception but regulator continue to seek innovative ways to ensure the sustained growth of this market. Recently, the Irish government adopted a unique approach to foster the development if its capital markets. The market although highly regulated and well controlled, was in 2018 acquired by Euronext to ensure sustained growth and development,

Also the Irish stock exchange is open to international companies both for listing and for trading, through the Atlantic securities market (ASM). The ASM is designed to allow US-listed companies to have their securities listed in Europe without significant additional admission or disclosure requirements to those they already comply with in the US.

The exchange currently has over 37,000 traded securities, although undervalued with a market cap to GDP ratio of 37.2% in 2020, the quality of government and other sovereign debts traded on this market are one of the best in Europe.

ACCESS TO CAPITAL

Ireland continues to be an important driver of growth in Ireland serving as a source of encouragement and attraction to foreign investors seeking to invest in the country. Financing exists in several levels from banks to venture capital funding, government funding for small businesses and other enterprise funding focusing on making capital available to small business.

SUMMARY

TAX	• Reduction of Corporate tax rate – 12.5% (Initially 10%) • 25% R&D Tax credit • Double taxation treaties with over 60 countries worldwide
EASE OF DOING BUSINESS	• Structured and efficient business regulation • Business protection laws – Strong Intellectual Property protection laws • Commissioning of the Intellectual Property Office of Ireland (First commissioned 1929, Rebranded 2019)
ECONOMIC OPENNESS	• Shift from agriculture-based economy to services moving industry to most significant contributor to GDP and creating opportunities for foreign Investments • Affiliation with the European Union
INFRASTRUCTURE	• Public infrastructure investments of $132 billion in public infrastructure and capital works from 2018-2027, With key focus on Enterprise, skills and Innovation capacity (amongst others)
CAPITAL MARKETS	• Independent stock exchange following acquisition by **Euronext** – To further promote growth and finance real economy • Atlantic Securities market – Stock market for foreign companies to invest
ACCESS TO CAPITAL	• Enterprise securities market –For early-stage business to raise capital to finance growth

03. COMPARISONS AND LEARNING

In this section, we discuss insights from our case study and benchmarking exercise and how these impact Ecuador.

1. Taxation
2. Ease of doing business
3. Economic openness
4. Infrastructural development
5. Capital Markets development
6. Access to financing/capital

TAXATION

As shown in the benchmarking process on taxation, (refer to page 08-09), Ecuador has not really adopted taxation as a competitive strategy in the past, especially in relation to tax rates and ease of paying taxes. At the moment, the corporate tax rates(individual & corporate) of 25% in Ecuador are highly unattractive. In addition to that, there is not s substantial amount of incentives and other provisions for foreign corporations to be exempted from taxes. They are subject to a 5% exit tax to repatriate funds (profits) from Ecuador to their originating country. Furthermore, there is a 15% mandatory payroll tax that companies in Ecuador (either foreign or local) have to pay to employees in Ecuador on a yearly basis. All these could make effective about 39%-40% for foreign companies. All these tax points are high and makes Ecuador a lot less attractive.

Also, the tax process in Ecuador, taxes an average of 664 hours to complete remittance. This time covers several manual procedures and office visits to complete.

These factors makes Ecuador less competitive and less attractive to foreign entities or individual investors from making investments in Ecuador

EASE OF DOING BUSINESS

Also, with the ease of doing business, Ecuador is a lot less attractive compared to the other countries. With a ranking of 129/190 on the ease of doing business, Ecuador is perceived to be less attractive to start and operate a business in. It takes an average of 49 days to start a business, costs above 30% of the GNI per capita - making it largely unaffordable, and involves more than 10 procedures that are likely to involve several office visits and approvals within the process.

There are also residency and physical presence requirements that make it difficult to do business in Ecuador, e.g. physical presence is required to open and account in Ecuador.

Ecuador ranks 160/190 in relation to resolving insolvencies due to the difficulties associated with this process in Ecuador. Furthermore, Ecuador ranks really low on investor protection due to a lack of efficient investor protection laws, e.g. Intellectual property, patents and brands are currently protected by the National and Andean legislation, however the specific rules are not transparently applied nor consistent to follow. Also, applicable years for intellectual property protection are not consistently applied and a good number of them cannot be renewed once expired.

ECONOMIC OPENNESS

In the area of Economic openness, Ecuador ranks 115 of the 137 economies ranked by global economy in 2020. This is due to the perception of Ecuador as a closed economy, largely because of limited participation in bilateral trade agreements and economic treaties and trade agreements in place with other economies.

Ecuador is a member of the Andean community, Latin American Integration association and the World Trade Organization- WTO. Ecuador also has some commercial agreements with Brazil, Argentina, Paraguay, Uruguay, Chile and partial trade agreement or other cooperation with Guatemala and Venezuela. This population represents only a fraction of the countries in the Latin America, all of which under ideal circumstances should be trade partners with Ecuador with substantial agreements to back the trade.

Also, Ecuador cancelled negotiations with the European Union for a trade treaty in 2017 and cancelled its existing trade agreement with the US and 11 other countries in the same year.

All these examples amongst others are pointers to a negative perception that Ecuador is not very receptive to foreign trade.

INFRASTRUCTURE

On infrastructure, Ecuador competes well in terms of basic infrastructure but continues to lag behind on digital infrastructure. According to the Latin America Economic outlook for 2020 Digital transformation, “Digital access and use for all in Ecuador improved from 8.8 (per 100 people) in 2008 to 54.7 in 2018, but is still below the LATAM average of 73.5 and OECD average of 103.6”. Meaning digital access is still limited to 55 out of 100 people in Ecuador compared to 74 out of 100 average in LATAM and 103 out of 100 for OECD countries average. Also Ecuador's performance enabling digital innovation was measured at 5.3% in 2018, below LATAM average of 8.6% and OECD’s 15.1%.

All these are pointers to the immense level of development still required to bring Ecuador to par with peers and increase the perception that Ecuador has the requisite digital infrastructure required for businesses to function.

CAPITAL MARKETS DEVELOPMENT

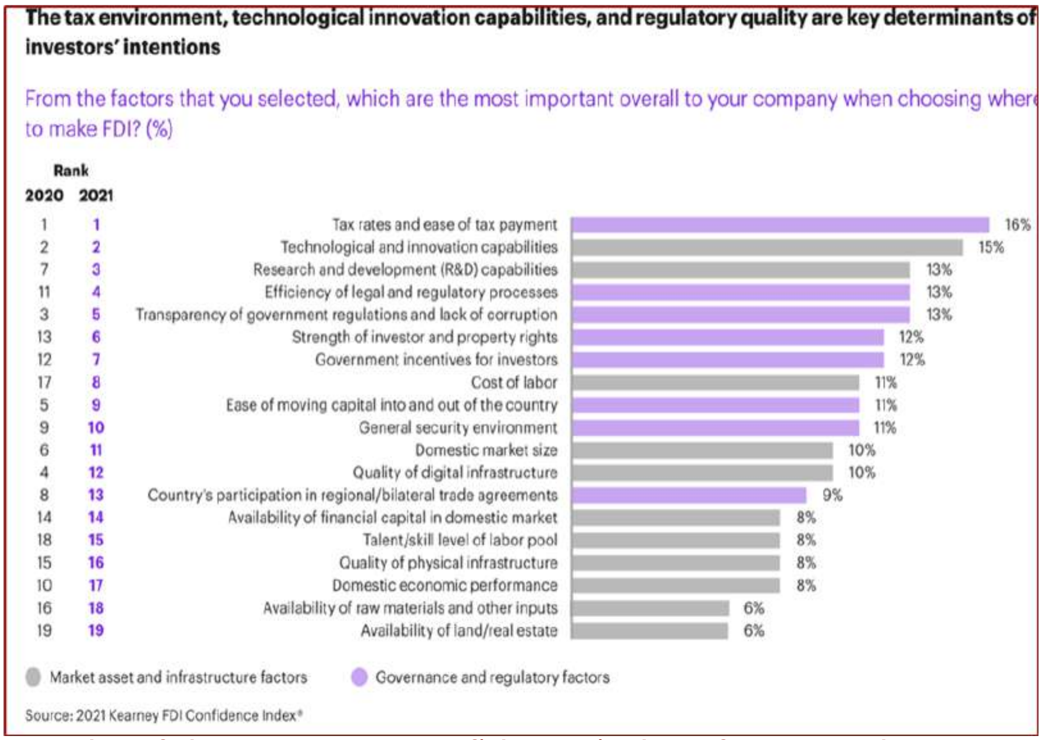
The capital market in Ecuador is simply underdeveloped with very limited options for investments on the Quito and Guayaquil stock exchanges. The issuance of government and corporate bonds are also infrequent and often defaulted. This has negatively impacted the credit rating of Ecuador debt instruments (see appendix 3) Limited investment options is a contributing factor to Ecuador's inability to attract FDI

ACCESS TO CAPITAL

Capital availability remains a problem in Ecuador mainly because of fewer existing financial institutions when compared to peer countries. Improving availability of capital will require concerted efforts by all stakeholders involved mostly the government and the financial services sector.

04.RECOMMENDATIONS

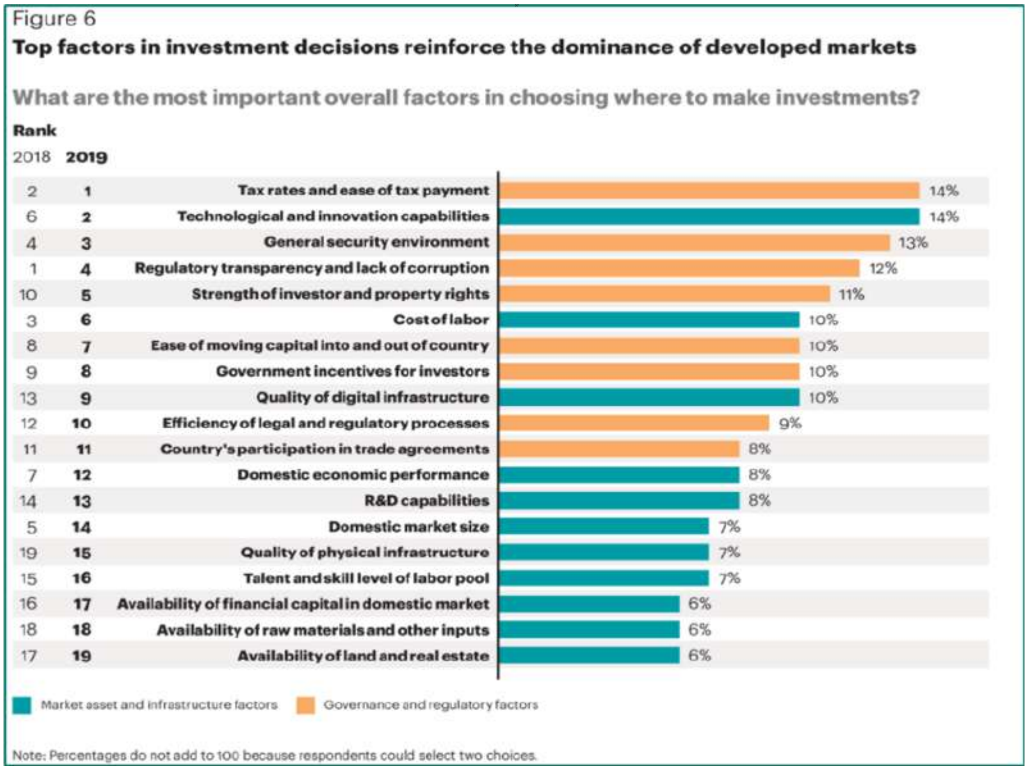
According to Kearney's FDI confidence index, tax rates and ease of tax payment, efficiency of legal and regulatory processes, government incentives for investors, strength of investor and property rights, participation in regional/ bilateral trade agreements, availability of financial capital in domestic market quality of physical infrastructure, ease of moving capital into and out of a country amongst others, are the most important factors companies consider when choosing a destination to make FDI.



Results of the Kearney's confidence index of 2020 and 2021

Similarly, the World economic forum considers identical factors, including enabling business environment, the financial markets, e.tc in ranking countries for global competitiveness and attraction of FDI. The World Bank's Doing Business Report also ranks countries for similar drivers to reveal the world's best business destinations and likely magnets for FDI. In addition to these factors, we examined Thailand, Panama, and Ireland and discovered how one or more of the above factors have helped to grow their economy, raise their competitiveness levels and FDI inflows, and most importantly helped on their journey to being financial hubs.

On that note, our recommendations are focused on highlighting these factors and recommending steps that Ecuador can take to close the gap on some of these factors where there are significant gaps.



Results of the Kearney's confidence index of 2018 and 2019

01 TAX SIMPLIFICATION

Lower tax rates
Simplify tax remittance process

02 Ease of Doing business

Business regulations
Business processes

03 Economic openness

Participation in bilateral trade agreements and regional trade
Free trade zones

04 Infrastructural development

Improved infrastructures and systems

05 Capital markets development

Incentives for listed entities
Incentives for capital providers, asset managers e.t.c

06 Access to capital

TAX SIMPLIFICATION

Reduce income tax to the lowest possible rate, lower than counterparts in the LATAM region. To successfully compete with these countries for a share of FDI that comes into Latin America, Ecuador needs to have a very low tax rate and attractive incentives that these other countries do not already have and cannot compete with. Currently, Ecuador has one of the highest tax rates in LATAM at *25%*, without substantial foreign tax credits or income tax incentives for investors.

Review and reassess the capital exit tax (5%) and mandatory payroll tax (15%). These are sensitive sources of revenue for the government and employees of companies(in the case of payroll taxes) so it may not be viable for these to be completely eliminated or removed, however they should be reassessed and placed at an optimal level for both the government and for business, especially foreign investors who may be discouraged from making investments in Ecuador because of these taxes.

Establish a double taxation agreement with the world's largest providers of FDI, e.g. the US, China and neighbouring countries with the Latin America region. With this in place, foreign investors are protected from being double taxed in Ecuador and their countries of origin.

Improve tax filing process. The current tax process is time consuming and cumbersome taking an average of 664 hours. It is also mostly manual. A good way to improve this process is to make it into an electronic process and reduce office visits in relation to tax filing.

Additional tax incentives for foreign investors. Expansion of the current scope of tax incentives for investors

EASE OF DOING BUSINESS

Simplify business registration process:- Like the tax remittance process, the business registration process also needs to be simplified and made into easy to follow. Introduction of simple electronic processes will help achieve this objective and improve poor perception associated with starting a business in Ecuador.

Review and Reassess residency and physical presence requirements. Physical presence requirement for processes such as bank account opening, property and business registration and other simple procedures can be revised to encourage investors who many be discouraged by the existence of these barriers.

Remove restrictions around movement of capital in and out of the country, including but not limited to the exit tax of 5% charged on repatriation of funds from Ecuador

Enact favorable business and investor protection laws. Review current investor protection laws to provide adequate protection for investors and owners of business.

Promote liberal legislation that allows autonomy of businesses and reduces interference of government in business operations. This was practiced with financial institutions in Panama with the removal of the central bank and autonomy of operations granted to individual banks promoting healthy competition, rivalry and growth in the banking sector

Increase predictability and transparency of regulations and business policies. A major problem confronting Ecuador in the area of regulation is inconsistent translation and application of existing regulation and a lack of transparency with the application of the same. Efforts should be directed towards ensuring consistent application of business laws.

ECONOMIC OPENNESS

Increased participation in bilateral trade agreements:- Reintroduction of cancelled bilateral trade agreements and establishment of better ways to resolve conflict. Also, identifying opportunities to participate in bilateral agreements with more countries especially neighboring countries and potential export destinations

Form sustainable alliances with foreign trade groups:- The financial services sector can benefit from participation in foreign trade groups such as the Securities Industry and Financial Markets Association (SIFMA) in the US and Association for Financial Markets (AFME) in Europe. Participation in these groups signals financial

Reassess and potentially increase areas marked for reduction of import/export tariffs , and or generally review import tariffs to identify opportunities for optimization and reduction

Strengthen existing trade agreements and free trade zones within Ecuador

Improve trade facilitation, Including logistics, road and rail networks, waterways, border management to help Ecuador integrate into the value chains of neighboring countries in the region and ultimately integrating into the global value chain.

INFRASTRUCTURAL DEVELOPMENT

Improve existing digital infrastructure and expand access scope. Continuous but drastic improvements to currently available digital infrastructure e.g. Internet, e-commerce products, digital payment channels

Create ICT clusters to focus on and foster growth of digital infrastructure. Like financial clusters, create a network of strategically interconnected businesses and associated institutions in strategy locations with the country to focus on development of digital infrastructure from the grassroots

Raise government spending levels and commitment towards digital infrastructure

Partnership with financial institutions to build infrastructure promoting the provision of sophisticated financial services products :- These partnerships can spur the financial sector action to improve the quality of financial products through the building of appropriate digital infrastructure, this can be done in exchange for other benefits. e.g. tax holidays or other tax benefits for participating financial institutions. This will help promote sophistaction of bank products and improve infrastructure levels at the same time

CAPITAL MARKETS DEVELOPMENT

Combine stock exchange markets in Guayaquil and Quito to one consolidated and strong market to achieve ease of management and efficiency. This helps to increase participation and encourages more listings due to uniform listing rules and requirements.

Issuance of government bonds and other sovereign debts. There are currently few government bonds in issuance, issuing more will help raise activity levels in the stock market and create more investment opportunities for potential investors.

Avoid default on government debts to improve credit ratings. Past defaults, restructuring and changes and government debts have negatively impacted the perception of the government debt instruments, and credit ratings, conscious avoidance of future defaults can help manage this negative perception and possibly improve credit ratings

Private regulation and management of the stock market activities. As seen with the Irish stock exchange, Privatization with the Euronext acquisition enabled Ireland to achieve significant success and sustained development in the capital markets. Privatizing the stock market will enable the Ecuadorian stock market get the required focus and efforts required to grow.

Open up stock market to international organizations. This involves removal of existing restrictions on foreign entities to list on the Ecuadorian stock exchange

Create conditions to facilitate listing of more companies on the stock exchange '

*Sensitize general populace about investments in the stock markets. T*his can be done in connection on going financial literacy education for financial services and fintech products

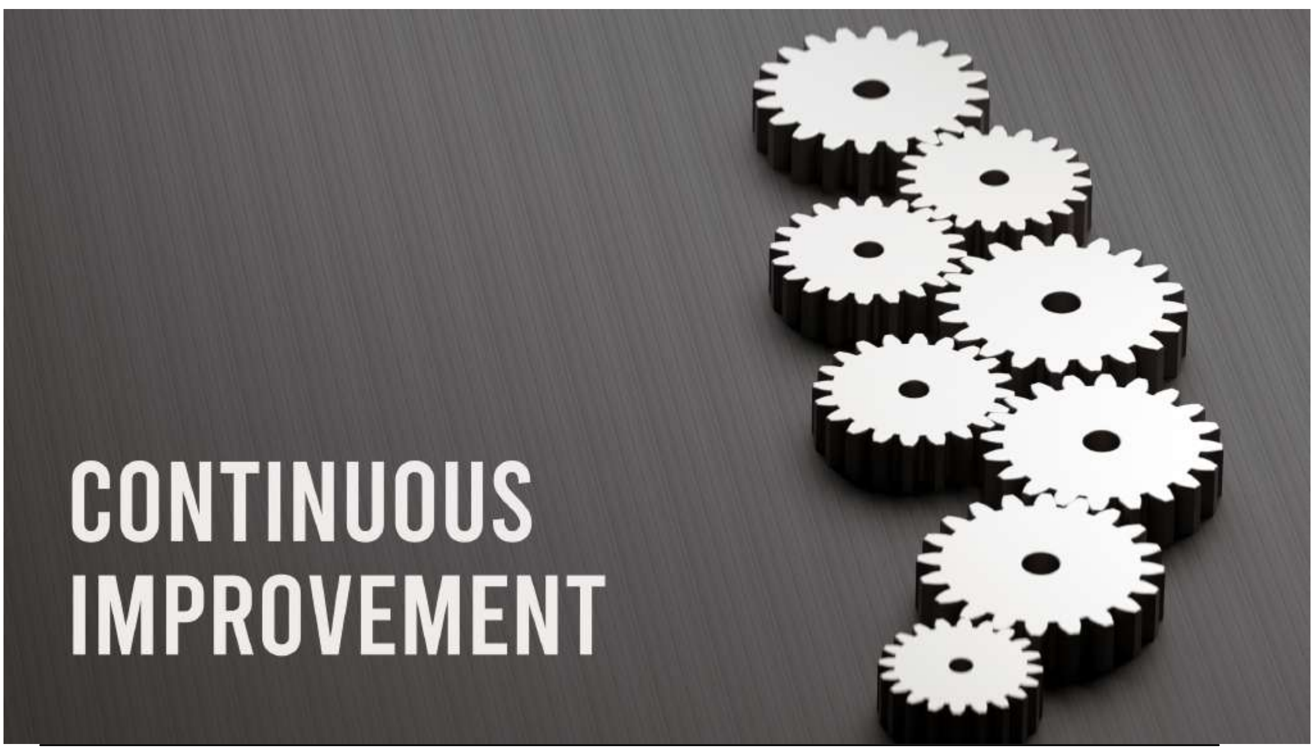
ACCESS TO CAPITAL

Issuance of government subsidized loans to Investors and Entrepreneurs. To encourage investments and establishment of businesses within the economy. This can be done in different phases with industry or activity focus. Focusing on developing industries, industries that contribute most to the economy or activities that foster economic development e.g R&D activities

Provision of incentives for providers of capital. These incentives can take the form of tax or other government subsidies for providers of capital focusing on investors, entrepreneurs and foreign entities

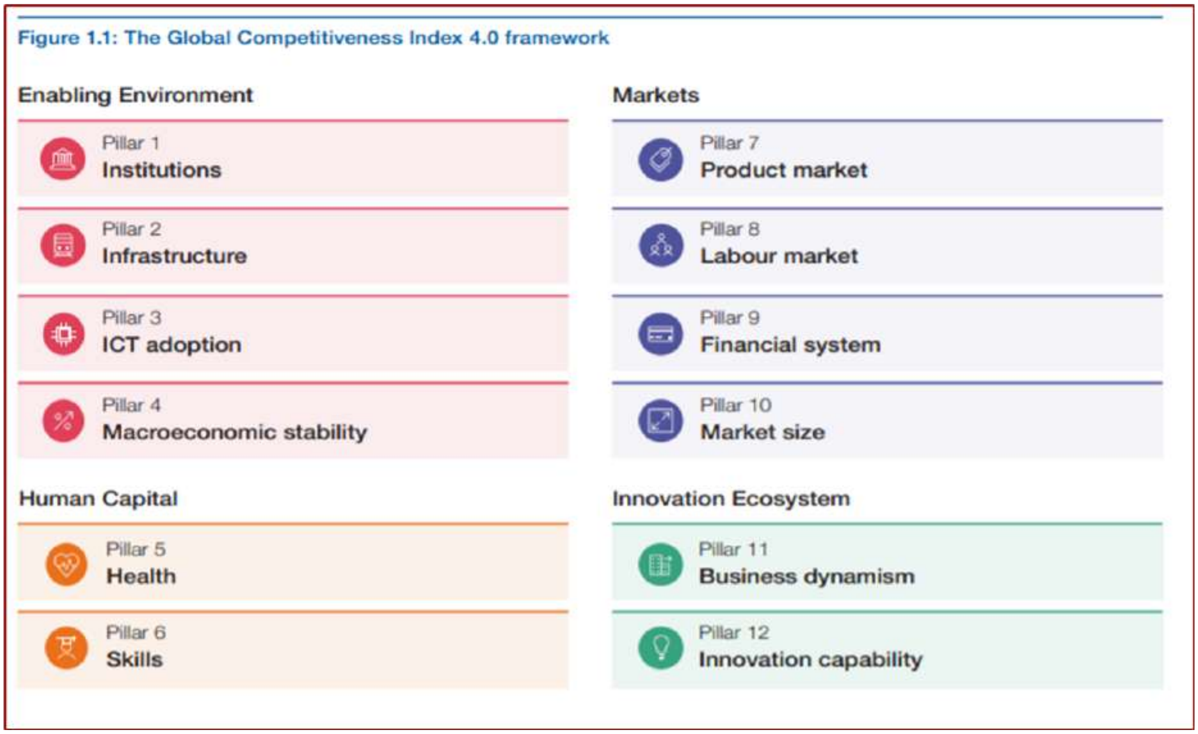
CONCLUSION

Attracting and retaining FDI is a continuous improvement process that requires a lot of innovation, intentionality, continuous review and reformation. It takes a lot of time and took our case study countries lots of years and decade to get to a vantage position. Ecuador is well on its way to becoming a better competitiveness through the continued focus and partnership of all parties involved.



APPENDIX 1

HOW THE GLOBAL COMPETITIVENESS RANKING IS MEASURED



Ecuador competitiveness ranking in details

Overview 2019

Selected contextual indicators

Population millions	17.0	GDP (PPP) % world GDP	0.15
GDP per capita US$	6,315.5	5-year average FDI inward flow % GDP	1.0
10-year average annual GDP growth %	2.7		

Social and environmental performance

Environmental footprint gha/capita	1.3	Global Gender Gap Index 0-1 (gender parity)	0.7
Renewable energy consumption share %	13.8	Income Gini 0 (perfect equality) -100 (perfect inequality)	44.7
Unemployment rate %	3.9		

WHAT DOES THE EASE OF DOING BUSINESS RANKING MEASURE?

APPENDIX 2

APENDIX 3

CREDIT RATINGS OF ECUADORIAN IONVESTMENTS AND WHAT THIS MEANS FOR INVESTORS

	Moody's	S&P	Fitch
Investment Grade	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA–	AA–
	A1	A+	A+
	A2	A	A
	A3	A–	A–
	Baa1	BBB+	BBB+
	Baa2	BBB	BBB
	Baa3	BBB–	BBB–
Non-Investment Grade *High Yield "Junk"*	Ba1	BB+	BB+
	Ba2	BB	BB
	Ba3	BB–	BB–
	B1	B+	B+
	B2	B	B
	B3	B–	B–
	Caa	CCC	CCC
	Ca	CC	CC
	C	C	C
Default	C	D	D

The public debt of the Ecuadorean government has been given a rating of B- both in Fitch and S&P and a CAA3 rating in Moody's, which are considered high risk assets to default.

Agency	Rating	Outlook	Date
Moody's	**Caa3**	stable	Feb 26 2021
Fitch	**B-**	stable	Sep 03 2020
S&P	**B-**	stable	Sep 01 2020

APPENDIX 4

Panama Fact Sheet - 2021	
Political	Transparent elections since 1990
	Smooth transition of power every 5 years
	Long tradition of openness to foreign investments
	Structural adjustments to economy proven positive
	Bureaucracy reduced, but still a major factor
Economic	US dollar is legal tender
	One of the fastest growing in the world with an average GDP growth of 6.80% over the past 8 years except this period of global pandemic.
	Inflation rate was 1.6% (2021)
	Unemployment 18.5% (2021)
	Foreign Direct Investment reached over 622.30 USD Million (2021)
	Free trade agreements with more than 10 countries, including USA
Financial	No exchange or currency restrictions
	Panama´s debt is ranked "Investment Grade", only 3 countries in LatAm have this status
	Moody's raised score of Panama's sovereign debt rating to Baa2 and improved its outlook for Panama from "stable" to "positive"
	An economic landscape of friendliness toward foreign investment with healthy and rigorous trade agreements i.e. The Investment Stability Law, the Free Trade Agreements, and Bilateral Investment Agreements (BITs)
Legal	No restriction on 100% foreign owned real estate
	BITs with multiple countries securing against expropriation and other risks
	One of the most flexible corporation laws in the world
	No restrictions on mergers, acquisitions or joint ventures
	Enforcement of foreign judgments and arbitral awards
	Generous tax incentives for relocating headquarters of multinationals and now multinational manufacturing and assembly.
Tax	Depending on the investment sector, the following are available:
	Exemption or discount from income tax
	Exemption from import tax on equipment and raw materials
	Accelerated loss carry-forward
	Accelerated depreciation
	No foreign exchange risk
	Absence of exchange controls
	No restrictions on companies ownership and foreign capital
Other Highlights	Panama is rated the third most competitive country in Latin America, according to the World Economic Forum
	Panama has been rated as second best place to retire, according to the International Living´s Annual Global Retirement Index 2021.
	Panama has been awarded in the fifth position of the ranking "Foreigner Investment" of Latin America, according to Global Opportunity Index 2021 published by the Milken Institute.
	Caterpillar, Procter & Gamble, 3M, LG, AES, TOTAL, Roche, Air China, Hershey and Heineken are some of the 100 most recent multinationals relocating their Latin American headquarters to Panama

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