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Economic Effects in the Import and Trade of Sport Footwear, following the Tariff Reduction Policy Implemented in 2019 and 2020

1. Abstract

1. This paper presents an analysis of the quantitative effects of the application of Resolution No. 019-2019 of the Plenary of the Foreign Trade Committee (August 12, 2019) and the Ministerial Agreement No. 586 of the Ministry of Sports (December 3, 2020); the former reformed Ecuador's tariff, granting a tariff benefit to the import of footwear and specialized implements for sports. Nonetheless, economic operators who want to access this benefit must previously obtain the *Certificate for the Importation of Footwear and Specialized Sports Implements* granted by the Ministry of Sports, which, among other requirements, requests a Customs Import Declaration with a validity of two (2) years prior to the application date, so the Certificate could only be obtained by a reduced number of importers.

2. For the quantitative analysis, this paper used econometric methods taking into account the products that benefited and did not benefit from the tariff reduction provided in Resolution No. 019-2019, with the objective of verifying the possible economic effects in the market. Likewise, the Autoregressive Distributed Lag (ARDL) model was used to identify possible asymmetries in the transmission of import prices to final consumer prices.

2. Results

3. Through Resolution No. 019-2019 issued by the Plenary of the Foreign Trade Committee (henceforth COMEX), the Ecuador's Tariff was reformed to grant a tariff benefit to the import of specialized sports footwear and implements. To this end, in accordance with the Ministerial Agreement No. 586 (Substitute Regulation for Obtaining the *Certificate for the Importation of Footwear and Specialized Sports Equipment*) issued by the Ministry of Sports, economic operators who are interested must previously obtain the Certificate established in the mentioned Agreement¹. In order to acquire the Certificate, the Ministerial Agreement No. 586 establishes, among other requirements, the submission to the Authority of a Customs Import Declaration (DAI)² with a validity of at least two (2)

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¹ Agreement No. 0586, Articles 3 and 4.

² National Customs Service of Ecuador, "Register of Customs Import Declaration", National Customs Service of Ecuador. Accessed May 12 2023, [https://www.gob.ec/senae/tramites/registro-declaracion-aduanera-importacion#:~:text=La%20Declaraci%C3%B3n%20Aduanera%20de%20Importaci%C3%B3n%20\(DAI\)%20es%20un%20formulario%20en,est%C3%A1%20siendo%20objeto%20de%20importaci%C3%B3n](https://www.gob.ec/senae/tramites/registro-declaracion-aduanera-importacion#:~:text=La%20Declaraci%C3%B3n%20Aduanera%20de%20Importaci%C3%B3n%20(DAI)%20es%20un%20formulario%20en,est%C3%A1%20siendo%20objeto%20de%20importaci%C3%B3n)

years prior to the date of application to qualify as a user in the system that the Ministry developed for the delivery of the Certificate.³

4. In this context, the analysis of the requirements of Resolution No. 019-2019 and the Ministerial Agreement No. 586 found indications of both possible negative effects on the commercialization of sports footwear and impacts on the levels of efficiency and competition in the market, which would be limiting the fulfillment of the public policy objective of facilitating access to adequate sports footwear for the population.

5. In the first place, it is important to note that the Organic Law for the Regulation and Control of Market Power (LORCPM) has among its objectives the search for “[...] efficiency in the markets, fair trade, and **the general well-being of consumers and users**, for the establishment of socially, supportive and sustainable economic system”.⁴ For this reason, the Superintendence of Economic Competition (henceforth SCE), within the framework of the powers established in the LORCPM, opened a file for the preparation of a Report on Competition Opinion to analyze and deduce in a quantitative and qualitative manner the problems indicated in the previous paragraphs.

6. In order to assess the likely economic impacts of the implementation of Resolution No. 019-2019 and Ministerial Agreement No. 586, information provided by economic operators engaged in the import and commercialization of sports footwear was used. The requested information included, among other data, prices, imported and sold quantities, and commercialized models of footwear at all stages of commercialization (from the importation of the product to its sale to the consumer).

7. Based on the information collected and under the notion of comparing price results (at any level of the value chain) between the products that benefited and did not benefit from such a reduction in tariffs, the *Differences-in-Differences* method was used in the following quantitative estimates: t-test, simple linear regression with fixed effects, and panel regression with fixed effects. On the other hand, to identify possible asymmetries in the transmission of import prices to the following links of the chain, the Autoregressive Distributed Lag model was used.

8. Generally, the Difference-in-Differences (*DD*) method determines the possible effects of a treatment variable in two groups (treated and untreated) over time. The model looks at two sets of data and two distinct moments (before and after treatment) where one of the groups is affected by a change.⁵

9. In relation to the quantitative methods considered: the methodology of the t-test is used to determine whether two groups or populations with a normal distribution have statistically equal means; simple linear regression allows to predict the behavior of one

³ Ecuador Sports Secretariat, Substitute Regulations for Obtaining the Certificate for the Importation of Footwear and Specialized Sports Implements (*Ministerial Agreement No. 586*), December 3, 2020, art. 2 no. 6.

⁴ Ecuador, Organic Law for the Regulation and Control of Market Power, Official Register No. 555, October 13, 2011, art. 1. (Translation done by the paper’s author)

⁵ Universidad de los Andes, Practic Guide for Impact Assesment. Ecuador: Universidad de los Andes, 2011, https://www.google.com.ec/books/edition/Gu%C3%ADa_pr%C3%A1ctica_para_la_evaluaci%C3%B3n_de_e_i/95XyDwAAQBAJ?hl=es&gbpv=1&dq=metodologia+diferencias+en+diferencias&pg=PT106&printsec=frontcover

variable (dependent or predicted) from another (independent or predictive)⁶; and, the fixed-effect regression method allows estimating the effect of unobserved and invariant features on a dataset, i.e., the existence of non-measurable factors that affect the outcome variable⁷.

10. To identify possible asymmetries in the transmission of import prices to the next stages of the chain, the Autoregressive Distributed Lag model was used: time series methodology allows to know the alterations of variables in the short and long term, where “the asymmetry in the transmission of prices refers to the fact that the impacts on consumer prices are different – for example, in their speed or proportion – when they come from increases in producer prices, than when they result from decreases in prices”⁸.

11. Before observing the results achieved, it is proper to point out two (2) relevant issues:

- Resolution No. 019-2019 classifies sports footwear as specialized and non-specialized, where only the former receives import tariff benefits; specialized footwear is understood to be those that are used in “[...] the practice of sports disciplines, considered as such by the competent authority of the Sport Secretariat”⁹.
- Within the data processing phase, the most important limitation was that the internal codes of the sports shoes of the corresponding economic operators were not fully traceable throughout the import and marketing process, and therefore, most of the information provided could not be analyzed under the methodologies indicated above.

12. In this way, shown below are the results of the quantitative exercises carried out to estimate the DD parameter¹⁰ by the link level of the commercialization chain, these being: import (FOB import prices and total import prices), commercialized to intermediaries, and commercialized to the final consumer. From the consolidated results of the different estimation methods and by link in the commercialization chain, although the data reveal that the prices of specialized sports shoes would have decreased after the resolution, over time, the final consumer prices of the type of footwear that did not receive any tariff benefit would have been reduced to a greater extent than specialized ones by approximately USD 11.3 – USD 11.4.

⁶ Jorge Dagnino S, “Linear Regression”, Rev Chil Anest 2014 https://www.sachile.cl/upfiles/revistas/54e63943b5d69_14_regresion-2-2014_edit.pdf

⁷ Shahidur Khandker, Gayatri Koolwal y Hussain Samad, “Impact Evaluation Quantitative Methods and Practices”, World Bank: Washington DC. Accessed September 18, 2023, p. 213, <https://openknowledge.worldbank.org/server/api/core/bitstreams/67f37dac-345d-57db-8289-244ad8c60c83/content>

⁸ COFECE "Report on the Conditions of Competition in the Agri-Food Sector", Cofece, accessed on October 17th 2023, p. 163, <https://www.cofece.mx/reporte-sobre-las-condiciones-de-competencia-en-el-sector-agroalimentario-2/> (Translation done by the paper’s author)

⁹ Ecuador COMEX, Resolution No. 019-2019, art. 2, National Supplementary Note, Chapter 64. The Ministry of Sport was formerly known as the Sports Secretariat. (Translation done by the paper’s author)

¹⁰ The DD parameter is a binary variable that adopts the values of 0 and 1; the value of 1 concerns the net effect of possessing the quality of specialized footwear (and therefore, having received the tariff benefit) after the issuance of the Resolution, compared to non-specialized footwear.

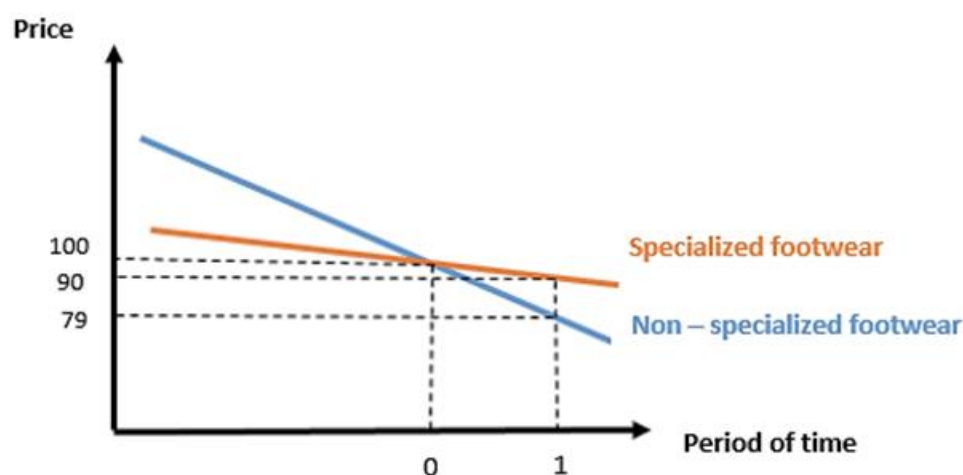
Table 1. Results Summary of the Coefficient of the DD Variable

Methodology used	Import (FOB)	Import (total price)	To the middleman	To the end consumer
T-test	-1.012***	-4.928***	2.52**	11.33***
Simple Linear Regression	-1.496	-5.422***	2.407	11.335**
Panel Data Regression	-0.977 ***	-4.901***	2.761***	11.406***

Source and Elaboration: Superintendence of Economic Competition

13. From the above, it's relevant to explain in more depth the following two (2) issues:

1. In any sense is inferred that the application of Resolution No. 019-2019 decreased (over time) the prices to the final consumer of both specialized and non-specialized footwear; the reasons for such joint decreases have not been conjectured but have been observed according to the data collected.
2. At the same time, it's not being expressed *per se* that the prices to the final consumer (after the application of Resolution No. 019-2019) of specialized footwear are on average approximately USD 11 more expensive than non-specialized footwear; as a hypothetical case, it's not being stated that, if prior to the Resolution both a model of non-specialized footwear and another of specialized footwear cost (coincidentally) USD 100 each, then after the measure the specialized one would have a price of USD 111, but that, over time and after the Resolution, the former decreased to approximately to USD 79 and the latter to USD 90. Graphically, the allusion to what happened would be (generically) as follows:

Figure 1. Generic evolution of prices of specialized and non-specialized sports shoes after the application of Resolution No. 019-2019

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14. Other findings also include the fact that a small number of operators that access the tariff benefit usually provide lists of suggested prices to retailers, although no quantitative or qualitative reason was identified for their submission. This could have a significant influence on the levels of competition between the stores of importers of specialized footwear and non-integrated retailers, since the latter cannot import with the corresponding tariff exemption. Likewise, from the comparison of marketing prices of three (3) models of sports footwear among the list of suggested prices with the importer's databases throughout the value chain, it was evidenced that the average price of commercialization from the

importer to the final consumer in its own stores is lower than that suggested to the intermediary, and in certain cases, even this average price is lower than the one that the importer sold the footwear to the intermediary.

15. Finally, from the results of the Autoregressive Distributed Lag model, a positive asymmetry (significant at 10% confidence) was observed in the effect of the import price on the marketing prices to the final consumer of the sports shoes that received the benefit, which indicates that the variations in consumer prices are greater when import prices increase than when they decrease.

Figure 2. Results of the “Autoregressive Distributed Lag” (ARDL) Model

ARDL(3,0,0) regression						
Sample: 2020m12 - 2022m12						
			Number of obs	=	25	
			F(5, 19)	=	4,16	
			Prob > F	=	0,0101	
			R-squared	=	0,5229	
			Adj R-squared	=	0,3973	
Log likelihood = 35,648737			Root MSE	=	0,0667	
D_ln_Precio_comer_si	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
D_ln_Precio_comer_si						
L1.	-,3310232	,1677832	-1,97	0,063	-,6821976	,0201511
L2.	-,1818079	,1769508	-1,03	0,317	-,5521702	,1885545
L3.	-,7075495	,1769607	-4,00	0,001	-1,077933	-,3371665
D_ln_Precio_importacion_si	-,1881822	,1465726	-1,28	0,215	-,4949622	,1185978
Dum_Dif_Precio_importacion_si	,0920449	,0497994	1,85	0,080	-,0121864	,1962763
_cons	-,031053	,0269817	-1,15	0,264	-,0875264	,0254204

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