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DID MEXICO LOSE THE FIGHT OF TOMATOE EXPORTS IN THE TIMES OF USA TARIFF, FACING THE UMSCA?



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Abstract: *U.S.A. placed in 2019, a tariff of 17.5 % in all the imports that U.S.A. made from Mexico. This tariff affected Mexican tomato growers and the Mexican export and therefore the Mexican economy. It can be said that the compensatory quotas are responsible for curbing or discouraging an unfair practice in foreign trade by charging tariffs that apply to goods imported under conditions of price discrimination or a subsidy in the country of origin, which are considered unfair practices, all this as established in the Foreign Trade Law.*

Keywords: *Elasticity, Tarif, Demand*

1 INTRODUCTION

The objective of this research is to give an academic explanation about the effects

that brought the tax placed by the American government to the Mexican tomato exportations. To do so, the method applied in this research was a mix of quantitative method and qualitative method.

Some data result which were found due to the collection of compensating quotas of 17.5% on Mexican tomato exports to the United States, the volume of shipments fell 20%.

With the announcement of a 17.5 percent to the Mexican tomato

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exportations inserted to the United States, the volume of demand fell from January to May by 10 percent

Finally, the United States made a new agreement that started on September 19th, 2019, where Mexican growers are exceeded to pay the 17.5% tariff.

2 THEORETICAL AND CONCEPTUAL FRAMEWORK

There are many reasons why a country imposes barriers in imports, one of them, is to protect the national producer from the international competition. USA imposed to Mexico's tomato imports a compensatory quota of 17.56% in each ton of tomato. According to the literature, the tariff can be a constant amount per unit of the product (specific tariff) or a constant percentage of the product's value, (Reed, 2001). That is because there was a possibility of dumping or price discrimination, where the price of a product is sold to the importing country less than the price of the same product when it is sold in the market of exporting country. Antidumping action can therefore only be taken if dumping is in place, accompanied by consequent injury to the domestic industry, (Czako, J, & Miranda, 2003).

To measure how a change in the price of the tomato affected the imposition of a tariff, the price elasticity of demand was determined. The price elasticity of demand compares the percentage change in the quantity demanded with the

percentage change in the price as long as there is a movement along the demand curve, (Krugman, 2007). The result can be elastic or inelastic.

3 METHOD

The method applied in this research was a mix of quantitative method and qualitative method. Qualitative method to investigate all the background around the topic. And quantitative method to calculate the price elasticity of the demand as follows:

$$\begin{aligned} \text{\% of variation on demand quantity} \\ &= \frac{\text{demand quantity variation}}{\text{initial demand quantity}} \\ & * 100 \end{aligned}$$

$$\text{\% of price variation} = \frac{\text{price variation}}{\text{initial price}} * 100$$

$$\begin{aligned} \text{Demand price elasticity} \\ &= \frac{\text{\% of demand quantity variation}}{\text{\% of price variation}} \end{aligned}$$

It is an inelastic demand when the magnitude of the demand price elasticity (PE) is less than 1, however when the demand is elastic the magnitude of PE is greater than 1 and unitary when it is equal to 1.

The Demand law states that the demand curve is decreasing. A positive percentage change in the price (an increase in the price) causes a negative percentage change in the demanded amount; and a negative percentage changes in the price (a decrease in the price) causes a positive percentage change of the demanded amount.

Did Mexico lose the fight of tomatoe exports in the times of USA tariff, facing the UMSCA?

Strictly mathematically, the demand price elasticity is a negative number but since its impractical, the minus sign is omitted, (Krugman, 2007).

Export data in the period of the tariff was taken and the demand price elasticity of tomato was calculated through a logarithm regression.

4 RESULTS

During January to August 2019, period where USA commerce committee imposed a 17.56% tariff to Mexican tomato exports, they were down 40%. Also, the analyses of the logarithm regression gave as a result an inelastic price demand of tomato of 0.63 less than 1 with a reliability of 61% during the period of May to August 2014-2018. Comparing the same period in 2019 it was found that the elasticity price tomato demand was elastic (2400) with a reliability of 74%.

$$Y_1 (may-aug '14-'18) = 63.625 \ln(x) - 223.6$$

$$R^2 = 0.6087$$

$$Y_2 (may-aug '19) = 2400.7 \ln(x) - 9107.4$$

$$R^2 = 0.7313$$

The tariff increased all the export process, having to pay high costs, affecting Mexican producers and exporters but also, the tomato price product is more expensive to the USA consumers. According to that México should look for other markets in the world.

5 CONCLUSIONS

The USA tariff imposed to the Mexican tomato exports caused high export costs for the Mexican exporters and high tomato price for the USA consumers. Leading to a downfall of 40 % of the Mexican tomato exports to USA, forcing that Mexico looks forward new markets.

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