Backfiring with Backhaul Problems

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Trade and Industrial Policies with Endogenous Transport Costs

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Abstract

Trade barriers due to transport costs are as large as those due to tariffs. This paper incorporates the transport sector into a standard model of international trade and studies the effects of trade and industrial policies. Transport firms need to commit to a shipping capacity sufficient for a round trip, with a possible imbalance of shipping volumes in two directions. This imbalance is known as the "backhaul problem." As transport firms attempt to avoid this problem, a tariff in one sector may affect other independent import and/or export sectors. In particular, domestic tariffs may backfire: domestic exports may also decrease, harming domestic export sectors and the domestic economy. This finding contributes to the literature on how import liberalization may generate a positive effect on the liberalizing country's exports by identifying a new channel through endogenous changes in transport costs given the backhaul problem.

JEL Codes: F12, F13, R40

Key words: Transport sector; transport cost; backhaul problems; international shipping; tariffs

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