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Jota Ishikawa, Nori Tarui

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# Backfiring with Backhaul Problems\*

Trade and Industrial Policies with Endogenous Transport Costs

Jota Ishikawa<sup>†</sup> and Nori Tarui<sup>‡</sup>

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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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<sup>†</sup>Faculty of Economics, Hitotsubashi University, Kunitachi, Tokyo 186-8601, Japan & RIETI; E-mail: jota@econ.hit-u.ac.jp.

<sup>‡</sup>Department of Economics, University of Hawaii at Manoa and the University of Hawaii Economic Research Organization (UHERO), 2424 Maile Way, Saunders Hall 542, Honolulu, HI 96822, U.S.A; E-mail: nori@hawaii.edu.

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