

What Goes around Comes around:
Export-enhancing Effects of Import-tariff Reductions

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Abstract

In international trade, transportation involves a round trip where the transport firm commits to capacity sufficient to serve shipping in both directions. Trade theory indicates that, with market power, firms in the transport sector adjust their freight rates when trading countries change their tariff rates; and hence reducing import tariffs by a country may increase not only its import but also its export. Using tariff, freight rates, and trade data across approximately 150 countries in 2003-2007, we find evidence that supports these predictions. This finding indicates an extra impact of import tariff reduction on exports through a channel that is unforeseen in the literature.

JEL Codes: F12, F13, R40

Key words: Transport firm; freight rates; tariffs