Comments on “What goes around comes around”
by Hayakawa, Ishikawa & Tarui

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Theoretical prediction

- Original theory by Ishikawa & Tarui

- Cost of keeping capacity → “Backhaul problem”

- Transport firm adjusts freight rates to avoid excess capacity.

- If trade widely asymmetric, freight rate of one route independent of capacity cost.
Empirical results

\[
\ln \text{Freight}_{ijt} = \gamma_1 \ln \text{Tariff}_{ijt} + \gamma_2 \ln \text{Tariff}_{jit} + X \beta + u
\]

\((-)\) \hspace{1cm} \text{(+) Distance etc.} \hspace{1cm} (\text{standard variables in gravity})

• Significance of Exporter’s tariff lost, if first-differenced in Table 4

• Robust checks (D², coastal, EU)

• Also reports of regression of trade
Comment 1: Theory vs. Regression

• Theory
  Role of capacity, Asymmetry in freight rates

• However, their regressions are reduced-form. Relationship with theory not tight.

• Include capacity utilization rate
  \((\text{Trade}/\text{Max}\{X, M\})\) in the regression or Separate capacity-constrained routes.
Comment 2: Asymmetry

• In the real world, bilateral trade not balanced in most of the pairs.

• Check whether the freight rate of the route with smaller volume really insensitive to changes in trade volume of the other route (esp. pick up pairs w/ large bilateral trade imbalance).
Comment 3: Difference

• First-difference (change from the previous year) reported, but...

• D-in-D Before vs. After
  ---Trade liberalization episodes
    (esp. unilateral liberalization)
  ---Deregulation of transport sector
Comment 4: Trade composition

• Their freight rate is computed by “freight-rate inclusive total imports divided by total imports.”
• Vulnerable to changes in compositions of goods traded.
• Use disaggregated categories (available?) and separate variations due to compositions.