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

$$\ln Freight_{ijt} = \underset{(-)}{\gamma_1 \ln Tariff_{ijt}} + \underset{(+)}{\gamma_2 \ln Tariff_{jit}} + X\beta + u$$

Distance etc.
(standard variables in gravity)

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

- Robust checks (D^2, 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

  (Trade/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.