Oligopolies in Trade and Transportation: Implications for the Gains from Trade

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Summary and Contributions

- **RQ**: How does bilateral bargaining between importers and carriers affect the transmission of tariffs on consumer prices?

- **Data and context**: Chilean firm-carrier import customs from 2007-22

- **Method**: Embed Alviarez, Fioretti, Kikkawa, Morlacco (2023) (AFKM) model of two-sided bargaining into quantitative trade model

- **Estimation Results**:
  - High importer market power (DRS and concentrated buyer shares)
  - Importer advantage over carriers in bargaining (70-30)

- **Counterfactuals**:
  - Tariff pass-through 40% lower than with iceberg costs due to a decline in transport costs
  - Decline driven by lower marginal cost due to DRS rather than change in markups/downs

A policy-relevant topic with a framework full of interesting intuitions!

Clarifying the references to AFKM

- No innovation on two-sided bargaining model and estimation relative to AFKM
  - that's fine! "we develop" $\rightarrow$ "we apply"
  - Instead of re-deriving the results, you could reproduce them and focus on the intuitions (it's a rich framework!)
  - With the saved space, there is room for telling us more about the carrier sector

Rich role of two-sided bargaining on the pass-through from AFKM

In response to tariffs:

1. marginal cost $\downarrow \Rightarrow$ pass-through $\downarrow$ (terms-of-trade channel): the increase in prices from the exporters leads to lower demand, which in turn leads to a lower marginal cost due to DRS ($\theta < 1$), compensating the initial price increase
   - unrelated to bargaining
   - more true if the importer represents a high share of the exporter's output (high x_{ij})

2. markups $\downarrow \Rightarrow$ pass-through $\downarrow$ (strategic complementarity): the exporter tries to limit the exodus away from their variety
   - more true if the exporter has high bargaining power (low ϕ)

3. markdowns $\uparrow \Rightarrow$ pass-through $\uparrow$ (strategic substitutability): as importers move away from the imported variety (lower x_{ij}), their downward pressure on prices weakens, so prices go up
   - more true if the importer has high bargaining power (high ϕ)

Specificity of carriers relative to exporters

- AFKM focus on exporter-importer bargaining; here, carriers are between exporters and importers
- You focus on carrier-to-importer bargaining, but your data shows as much value in transactions arranged by the exporter than the importer
- Motivate the CES aggregate of transportation services, which so far seems ad hoc
- Should we think the carriers' response is on top of exporters' response so that overall pass-through is even lower than found by AFKM?

Tariffs in General Equilibrium

- Entry/exit of importers: interesting added mechanism that interacts with markups/downs
- You find low pass-throughs (how small exactly?), as do AFKM
  - They predict 38% PT for Trump 2016, but are at odds with high PTs in many studies
- Why do you find that markups $\uparrow$ and markdowns $\downarrow$? I think AFKM predict the opposite
- Low pass-through is driven by market power (low θ), not bargaining (ϕ)
- It's not that both margins are large but compensate each other; they are both small $\Rightarrow$ disappointing?

Summary

- A policy-relevant research question recognizing the central, but often overlooked, role of the transportation sector in mediating trade policy
- The paper provides convincing descriptive evidence that accounting for bargaining may be important in this setting
- Embedding AFKM's two-sided bargaining in a quantitative trade model yields new insights
- Exploiting the specificities of the carrier-importer relationship in the analysis could yield new insights and perhaps elicit a higher role for bargaining, which is so far muted