

# IWH Research Seminar in Economics

October 29, 2018, 10:15 – 11:45, conference room, ground floor



## The Downstream Impact of Upstream Tariffs: Evidence from Investment Decisions in Supply Chains

Professor Thorsten Martin, PhD, Bocconi University

(together with Clemens A. Otto, PhD, Singapore Management University)

Using data on import tariffs and investment in U.S. manufacturing industries between 1974 and 2012, we show that upstream tariff reductions are followed by increased down-stream investment. We test different possible explanations. The results are most consistent with tariff reductions improving downstream customers' incentives to invest by mitigating the risk of ex post hold-up from upstream suppliers. In particular, we find that the investment response is stronger if the customers have little bargaining power and are not vertically integrated with their suppliers, if the suppliers produce specific inputs, and if high uncertainty inhibits the use of long-term contracts.

Scientific contact at IWH:

Professor Michael Koetter, PhD

Tel +49 345 7753 771, [Michael.Koetter@iwh-halle.de](mailto:Michael.Koetter@iwh-halle.de)

Halle Institute for Economic Research (IWH) – Member of the  
Leibniz Association

Kleine Maerkerstrasse 8, D-06108 Halle (Saale)

Tel +49 345 7753 60, Fax +49 345 7753 820

