

Effect of Trade Restrictive Provisions with Due-Diligence on Bilateral Trade Flows: The Case of the US Regulation on Conflict Minerals *

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Abstract

The US Congress passed the Dodd–Frank Wall Street Reform and Consumer Protection Act in 2010. It includes the provision (section 1502) of a due diligence requirement: publicly listed firms in the US Securities and Exchange Commission must check their supply chains for tantalum, tin, tungsten, and gold originating from the Democratic Republic of Congo (DRC) or neighboring countries thereof and to check if they are free from conflicts in the target region. Focusing on tantalum and tungsten, this study empirically examines (i) the effect of the act on trade flows from the target countries to the US, and (ii) the trade diversion effects in terms of both production (export) and consumption (import) sides. We also clarify if the act weakens the relationship between international transactions and conflicts, by using the data provided by the Department of Peace and Conflict Research, Uppsala University, on the number of georeferenced deaths caused by such conflicts. We find that the export from the target countries to the US and OECD countries decreased after the act was enforced, whereas the trade diversion effects rose. Although the act weakened the relationship between trade values and conflicts, there is a possibility that corruption in the trade of these resources increased.

Keywords: Conflict minerals, the Dodd–Frank Act, gravity approach, process and production methods, PPMs, trade restrictive measures.

JEL Code: F14, F18, Q34, Q37.

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