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The Data Are Clear: Remove Tariffs on China

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The Trump Administration has been increasing the cost of goods from China by increasing tariffs on imports. It considers these tariffs a way of building leverage in negotiations, and of forcing China to change its practices that lead to the transfer of technology from American businesses to Chinese competitors. To date, tariffs ranging from 5 percent to 25 percent have been placed on $360 billion worth of cross-border trade between the U.S. and China—artificially increasing the price of thousands of traded goods.[1]

While the U.S. and China have yet to reach an agreement and settle the concerns over technology transfer, research shows that the increased cost of trade is having a negative impact on the U.S. economy. It is fair to say that these costs often go unnoticed by most Americans due to the strength and size of the overall U.S. economy. Nonetheless, Americans are paying a higher price for imports. Keeping these tariffs in place or increasing them any further will have lasting negative effects. Removing tariffs must be a priority in any agreement with China.

The Cost of Tariffs

Though the Trump Administration's efforts are an attempt to balance the commercial relationship between the U.S. and China, the ongoing dispute is not without costs. Since early 2018, the Administration has increased tariffs on more than $300 billion worth of imported goods globally, including solar-panel parts, washing machines, steel, aluminum, and certain products specifically from China.[2] Of this $300 billion, roughly $250 billion worth are specifically on goods from China.

China has retaliated with its own tariffs on U.S. exports. For now, the U.S. has suspended the increase of tariffs on $200 billion worth of Chinese imports until further notice as a part of ongoing negotiations.[3]

While the increased cost of imports negatively affects American consumers, it is American importers and exporters who have been facing some of the greatest costs from the dispute with China. President Donald Trump occasionally cites research that estimates that China is paying for 80 percent of the tariffs on Chinese imports.[4] This research suggests that producers in China are cutting their production costs, thereby reducing their profits, in order to stay competitive in the U.S. market. However, this research is based on a simple economic model that assumes imports from China are easily substitutable—which is incorrect.

More detailed research by the National Bureau of Economic Research (NBER) points to the contrary and shows that imports are not easily substitutable, China-based producers are not cutting costs, and Americans are paying the full price of tariffs as well as the resulting negative economic costs.[5] There has been no significant change in the pre-tariff prices of the imports that have seen a tariff increase over the past year. While higher prices can sometimes lead consumers to find cheaper substitutes, these imports

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have not been found to be easily substitutable, either. NBER's research leads to the conclusion that the total cost of tariffs has led to a loss for U.S. consumers and producers worth roughly $68.8 billion. Even after taking into account tariff revenue collected by the U.S. government, the overall economic loss for the U.S. has been estimated at $6.4 billion.

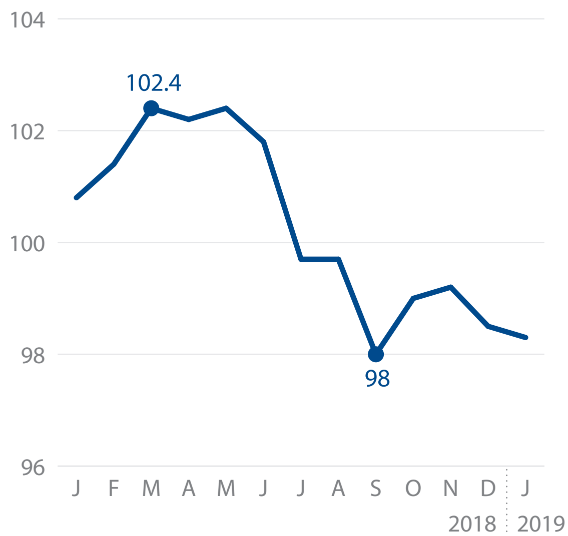
Research by the Centre for Economic Policy Research estimates that in 2018 the U.S. experienced at least $6.9 billion in deadweight loss, a loss in opportunity for Americans, given that importers had to pay a higher price than they otherwise would have in 2017. Producers alone, because of retaliatory tariffs, now face a $2.4 billion-a-month loss in exports. By November 2018, the loss to the U.S. from tariffs had increased to roughly $1.4 billion a month.[6] If this costly trading environment was to stay consistent, the U.S. could see a loss of at least $16.8 billion in 2019.

The significant loss for U.S. producers is also supported in other research. The Institute of International Finance estimates that American exporters face higher costs than Chinese exporters. It estimates that the trade dispute with China is costing the U.S. an annual loss of $40 billion in exports.[7] The Trade Partnership Worldwide estimates that tariffs on imports from China, including tariffs on steel and aluminum, will cost the U.S. an annual $62 billion over the next several years.[8]

CHART 1

Terms of Trade with China Dropped Sharply in 2018

PRICE INDEX RATIO OF U.S. EXPORTS TO IMPORTS



SOURCE: Bureau of Labor Statistics, "Import/Export Price Indexes," https://www.bls.gov/web/ximpim/tot.htm (accessed March 27, 2019).

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1. The U.S. has placed tariffs on imports from China between 10 percent and 25 percent on $250 billion worth of goods, based on pre-tariff values. China has placed tariffs between 5 percent and 25 percent on $110 billion worth of goods, based on pre-tariff values, from the U.S.
2. Pablo D. Fajgelbaum et al., "The Return to Protectionism," NBER *Working Paper* No. 2563, March 2019, https://www.nber.org/papers/w25638 (accessed March 11, 2019).
3. Office of the United States Trade Representative, "Notice of Modification of Section 301 Action: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation," *Federal Register*, Vol. 84, No. 43 (March 5, 2019), p. 7966, https://www.federalregister.gov/documents/2019/03/05/2019-03935/notice-of-modification-of-section-301-action-chinas-acts-policies-and-practices-related-to (accessed March 11, 2019).
4. Benedikt Zoller-Rydzek and Gabriel Felbermayr, "Who Is Paying for the Trade War with China?" EconPol *Policy Brief* No. 11, November 2018, http://www.econpol.eu/publications/policy_brief_11 (accessed March 11, 2019), and The White House, "Remarks by President Trump at the 2019 Conservative Political Action Conference," March 2, 2019, https://www.whitehouse.gov/briefings-statements/remarks-president-trump-2019-conservative-political-action-conference/ (accessed March 11, 2019). "I'm fine with it. Of the 25 points, we've paid for 4 points, and China has paid for 21 points. Okay? Twenty-one."
5. Fajgelbaum et al., "The Return to Protectionism."
6. Mary Amiti, Stephen J. Redding, and David E. Weinstein, "The Impact of the 2018 Trade War on U.S. Prices and Welfare," Centre for Economic Policy Research *Discussion Paper* No. 13564, March 2019, https://cepr.org/content/free-dp-download-04-march-2019-impact-2018-trade-war-us-prices-and-welfare (accessed March 11, 2019).
7. Shawn Donnan and Jordan Yadoo, "China Trade War Cost Tops $40 Billion in U.S. Exports," Bloomberg, February 28, 2019, https://www.bloomberg.com/news/articles/2019-02-28/china-trade-war-cost-tops-40-billion-in-lost-u-s-exports (accessed March 11, 2019).
8. Trade Partnership Worldwide, LLC, "Estimated Impacts of Tariffs on the U.S. Economy and Workers," February 2019, https://tradepartnership.com/reports/estimated-impacts-of-tariffs-on-the-u-s-economy-and-workers-2019/ (accessed March 11, 2019).

Weakening Trade and Investment

According to the Bureau of Labor Statistics, since May 2018, the terms of trade with China have been weakening. This means that the price of imports from China has become more expensive relative to exports to China, despite changes in the exchange rate.[9] This suggests that Americans have to work more to buy the same amount of goods from China. Average exports to China by the end of 2018 were down 30 percent from 2017. Average imports had increased 3 percent.[10] The decreased ratio in the U.S. terms of trade is likely a result of the increased cost of trade from tariffs and uncertainty in the bilateral economic relationship.

Tariffs on trade between the U.S. and China are having a negative effect on investment as well. Perhaps this is because 43 percent of China's total exports comes from American and other foreign-invested enterprises.[11] The Administration's efforts could potentially lead to an improved investment environment in China. However, according to a recent survey of American and Chinese companies in China, due to recent tariffs, "nearly a fourth are delaying China investments or shifting supply chains out of the US."[12]

Tariffs are having a negative impact on the U.S. economy. Therefore, the Administration must:

- **Remove tariffs as a part of negotiations with China.** The U.S. should eliminate tariffs as soon as possible. There is very little research to suggest punitive tariffs are an effective tool in trade negotiations.

- **Understand the harm that tariffs have created.** Significant research shows the negative costs that tariffs impose on domestic and international supply chains. The Administration should be aware that its actions could lead to a reversal of decades of progress that the U.S. has made in reducing the cost of trade for Americans.

- **Pursue more effective policies to deal with China.** There are other ways to deal with Chinese practices relating to technology transfer that limit the cost to Americans. The U.S. should pursue policies that benefit Americans more than it harms them.

Conclusion

Tariffs are a cost not every American can afford, yet virtually every American ends up paying. Furthermore, history has shown that once punitive tariffs are in place, they can be very hard to remove. Chinese commercial practices may warrant a U.S. response but not one that simultaneously harms Americans' economic prosperity. Policymakers should avoid policies that create more harm than benefit.

*—**Riley Walters** is Policy Analyst in the Asian Studies Center, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.*

9. Bureau of Labor Statistics, "Import/Export Price Indexes," Table 9. U.S. terms of trade indexes by locality, https://www.bls.gov/web/ximpim/tot.htm (accessed March 11, 2019).
10. Based on the author's calculations using data from the United States Census Bureau, "Foreign Trade: Trade in Goods with China," https://www.census.gov/foreign-trade/balance/c5700.html (accessed March 11, 2019).
11. General Administration of Customs of the People's Republic of China, "Review of China's Foreign Trade in 2018," January 14, 2019, http://english.customs.gov.cn/Statics/6fe5d71e-9732-4345-8488-96f2ce1d9566.html (accessed March 11, 2019).
12. AmCham China and Deloitte, "2019 China Business Climate Survey Report," February 2019, https://www.amchamchina.org/policy-advocacy/business-climate-survey/ (accessed March 11, 2019).