The Daily Dish

Who is Paying the China Tariffs?

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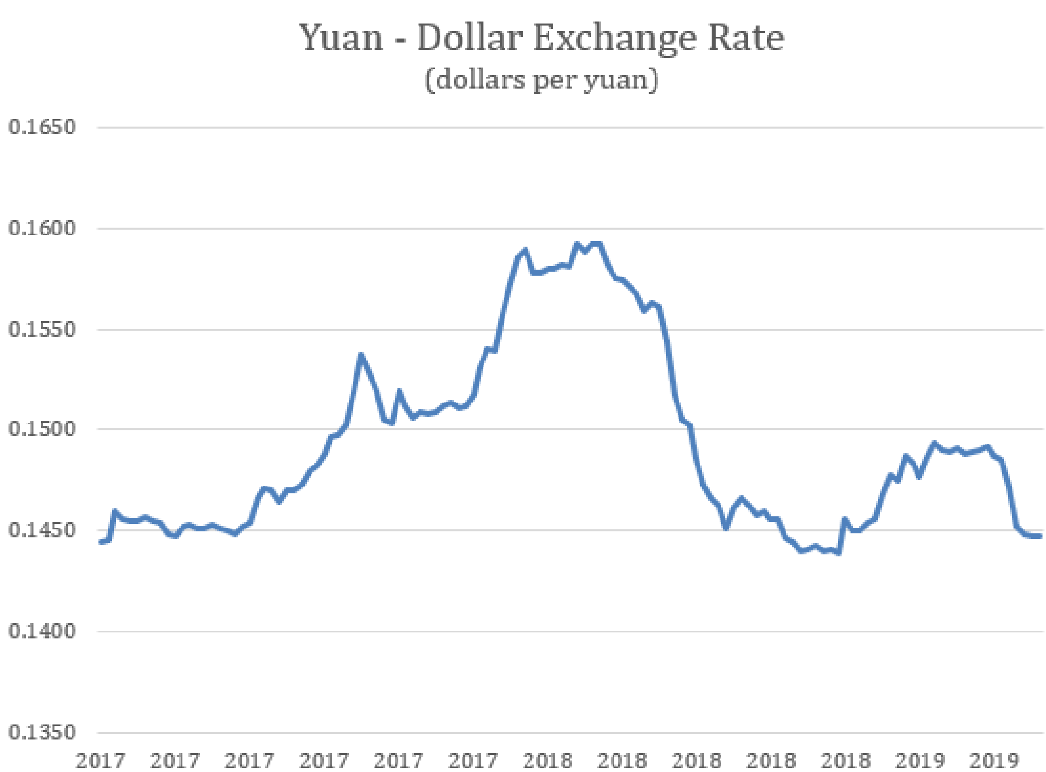
Eakinomics: Who is Paying the China Tariffs?

"Our country can take in $120 billion a year in tariffs, paid for mostly by China, by the way, not by us," President Trump said recently. The president is fond of saying that China is paying the tariffs on goods imported from China. As it turns out, the notion of "paying" the tariff is a bit more slippery than one might think. Just as with other taxes (and tariffs are taxes), there is a distinction between who writes the check to the U.S. Treasury and who bears the economic burden of the tariff.

The former – the statutory incidence of the tariff – is simple. U.S. importers pay the tariffs. The economic incidence is a bit more subtle. The answer could be someone in the United States. The importing firm could pass the cost of the tariff along in the form of higher prices; the ultimate consumer would bear the burden. Or, the burden could be visited on workers because importers reduce their wage growth to accommodate the higher tariffs. Or, it could be the owners of the firms who simply eat the cost of the tariffs and earn lower profits.

The only way to dodge this economic trail of tears is for the purchase price faced by U.S. importers to decline. This price drop could take one of two forms. First, the Chinese yuan could fall in value relative to the dollar. If so, it would take fewer dollars to match any yuan-based price; it would be a *de facto* price decrease for U.S. purchasers.



The chart above shows the yuan-dollar exchange rate (measured as dollars per yuan) from 2017 to the present. Recall that the key tariff-related dates are:

- **June 15, 2018 –** Final tariff lists released by the U.S. and China;
- **July 6, 2018 –** First round of Section 301 tariffs comes into effect and is met by Chinese retaliation;
- **July 10, 2018 –** U.S. announces another $200b subject to tariffs;
- **August 23, 2018 –** U.S. second round comes into effect and is met by Chinese retaliation;
- **September 24, 2018 –** U.S. imposes 10 percent tariffs on $200b (third round) and is again met by Chinese retaliation; and
- **May 10, 2019 –** U.S. tariffs increase to 25 percent on $200b, and the Chinese retaliate.

It certainly is true that the value of the yuan has fallen since early 2018 (although it is essentially unchanged over the whole period); the maximum decline is about 9 percent, and the decline since the 25 percent rate went into effect is only 2 percent.

Alternatively, the exchange rate could remain unchanged (or the contracts could be in dollars) and the price charged and received by Chinese suppliers decline. I examine this possibility in the chart below, which shows an index of the price of China's exports over the 2017-2019 period.

It tells a similar story. Over the entire period, the index is roughly unchanged; the largest decline since mid-2018 is 5 percent, and there is a 3 percent decline since the full 25 percent tariff rate was imposed.

What can we make of all this? In the best-case scenario, the exchange rate (9 percent) and price (5 percent) declines combined to offset some of the 25 percent tariff rates. In the worst case, both the exchange rate and prices are the same as the pre-tariff era, and the United States is paying the tariffs in every sense of the word.


Index of Chinese Export Prices
112
110
108
106
104
102
100
98
96
94
92
2017
2017
2017
2017
2018
2018
2018
2018
2019
2019