Exclusions for Sale? Tariff Exclusions in the US-China Trade War

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Abstract :
In 2018-2019, the US imposed a swathe of Section 301 tariffs that affected around two-thirds of its imports from China. Less well-known is the fact that companies could seek exclusions from these tariffs under an administrative process managed by the Office of the US Trade Representative. Using data on all applications, we document the extent of these exclusions (they were non-trivial), and explore what explains successful requests (importantly, proxies of the applicant's ability to convey information about the material impact of the tariffs). We assess the welfare implications of this policy design for the Section 301 tariffs, by developing and calibrating a "protection for sale" model in which firms reveal information about their dependence on imports from China as grounds for seeking an exclusion. Quantitatively, the higher tariff rates announced under a policy of "tariffs with exclusions" exacerbate the overall welfare cost to the US substantially compared to a counterfactual policy of "tariffs without exclusions"; this is even though (conditional on given tariff rates) the exclusions improve the targeting of the tariffs across heterogeneous firms within product codes.