

Trade Effects of US-China Tariff Hikes: An Econometric Analysis

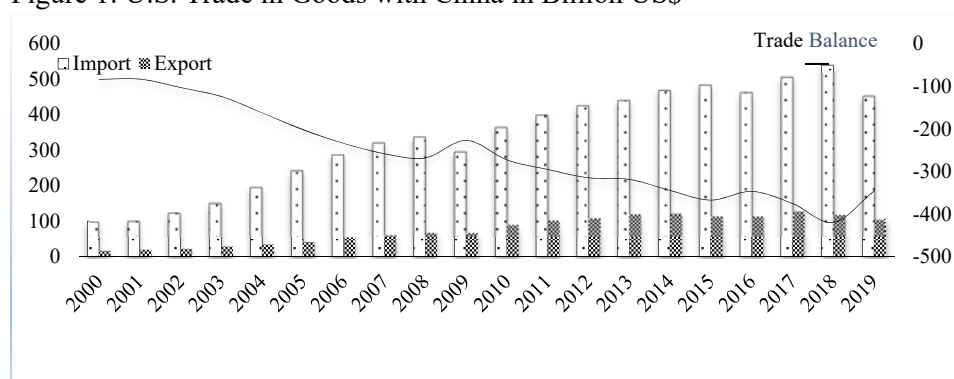
Akash Doifode and Badri G Narayanan

This paper empirically studies the effect of tariffs imposed by the US and China on exports until January 2020. We use a CARD trade war tariffs dataset and UNCTAD TRAINS dataset for tariffs data before trade war along with monthly trade data from the US Census. Using the fixed effect panel data model, we find that there is a significant negative impact of tariffs imposed on the export values of both the countries. We also note that the effect of tariff imposed by China on US export values is more than the effect of tariff imposed by the US on China's exports. On average, for a one percentage point rise in the tariff rate, the US exports to China may fall by 1.6 times more than Chinese exports to it.

I Introduction

China's exports to foreign countries started growing rapidly after it became a member of WTO in 2001. This growth of foreign trade has made many foreign countries anxious about trade with it. Exports of China to the US grew from \$102 billion in 2001 to \$539 billion in 2018 with a CAGR of 10.28 per cent. Due to comparative advantage, China exports mostly labour-intensive goods to the US whereas the latter exports land-intensive agricultural commodities to China. As we can see in Figure 1, the trade deficit of the US with China grew from \$83 billion in 2001 to \$419 billion in 2018 (US Census Bureau).

Figure 1: U.S. Trade in Goods with China in Billion US\$



Source: US Census Bureau, Worlddata.ai

Akash Doifode, Economist, WorldData.AI, Email: akashdoifode13@gmail.com

Badri G Narayanan, Affiliate Faculty, University of Washington, Email: badrinarayananag@gmail.com