Exclusions for Sale?

Tariff Exclusions in the U.S.–China Trade War

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Rocky Mountain Empirical Trade Conference (RMET)

Overview

Question:

How did the Section 301 tariff exclusion process affect welfare during the U.S.–China trade war?

Data:

- Universe of 52,746 Section 301 exclusion requests from 4,771 firms
- Product-level trade flows, duties collected, and tariff schedules at the HTS10-month level
- Lobbying disclosures, campaign contributions, firm characteristics, and regional political measures

Approach:

- Estimate the scope and determinants of tariff exclusions
- Calibrate a model of discretionary tariff policy to compare alternative tariff regimes

Main Findings

1. **12.9% of requests were approved**
   - Firms using representatives, support letters, and trade lobbying were 3.4–9.1 percentage points more likely to receive exclusions.

2. **15.8% of targeted Chinese imports were effectively excluded**
   - Corresponding to roughly $12.6 billion in forgone tariff revenue.

3. **Tariffs with exclusions increased welfare losses**
   - The calibrated model compares average tariff rates under:
     - tariffs with exclusions (21.6%),
     - uniform tariffs without exclusions (20.6%),
     - and welfare-maximizing tariffs (7.7%).
   - Relative to a counterfactual uniform tariff policy, the "tariffs with exclusions" model generated a 19% larger welfare loss.

Major Comment 1: Measuring Exclusions

Exclusion shares are inferred from effective duty rates:

$$\Delta DutyRate_{kt}^{CHN} = \frac{1}{S}\sum_{s=1}^{S} DutyRate_{k,t+s}^{CHN} - Tariff_k^{MFN} = (1-\pi_k) \times Tariff_k^{CHN}$$

- π_k is backed out from how far effective duty increases fall short of statutory Section 301 tariffs
- But the effective duties gap may also reflect FTZs, bonded warehouses, drawback, or customs/timing adjustments

Potential exercises:

- Show effective duty increases track statutory tariffs for products with no exclusions
- Restrict to industries less likely to use tariff-mitigation channels
- Validate inferred exclusion shares against observable requests for Lists 1–2

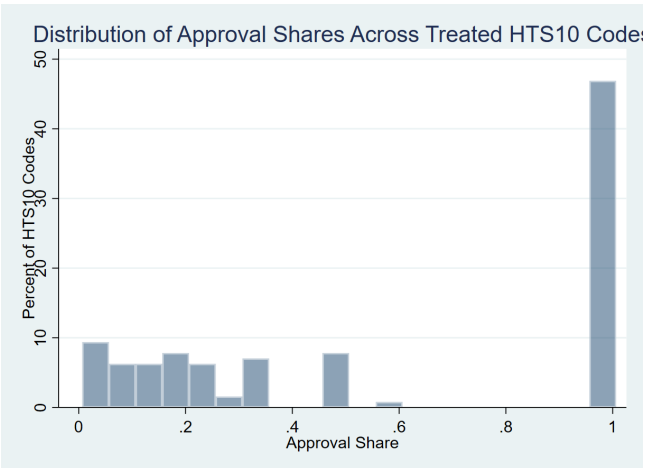
Major Comment 2: Event-Study (Appendix B.1)

$$\ln(1+Imp_{kt}^{CHN}) = \sum_{\tau=-4}^{4} \alpha_1(event_{kt}=\tau) + \sum_{\tau=-4}^{4} \beta_1(event_{kt}=\tau) \times excl_k + D_k + D_{\kappa t} + \varepsilon_{kt}$$

Codes with one granted request are treated similarly to codes with broad approval coverage

	Obs.	Mean	Min	Max
HTS10 codes with approvals				
Granted requests	128	4.49	1	149
Denied requests	128	16.73	0	295
Approval share	128	0.59	0.006	1

Note: Statistics are at the HTS10 level for List 4 products. Full sample includes 1,226 HTS10 codes with at least one exclusion request.



Potential exercises:

- Use exclusion shares or approval intensity as continuous treatment measures
- Clarify how event dates are assigned under staggered approvals and extensions
- Consider PPML instead of log(1 + imports)

Example Exclusion Request (HTS 8526694040)

Additional Comments

- **Costs and uncertainty of filing**
  - Firms apply only if expected tariff savings exceed legal, administrative, and delay costs
  - *Suggestion:* Add an application-cost sensitivity exercise
- **Dynamic exclusion timing**
  - Exclusions were often extended or later reinstated
  - *Suggestion:* Clarify how extensions enter the empirical analysis and inferred exclusion shares
- **Firm-name matching**
  - Applicant names contain typos and inconsistent spellings
  - *Suggestion:* Report sensitivity to alternative matching thresholds or manual cleaning of large filers

Example Exclusion Request: HTS 8526694040

10. Please provide the value and quantity (with units) of the Chinese-origin product of concern that you purchased for each calendar year specified. Limit this figure to the products purchased by your firm (or by members of your trade association) alone. Please provide estimates if precise figures are unavailable.

2017 Value:	2,994,861	2017 Quantity:	233,295
2016 Value:	2,709,915	2016 Quantity:	212,633
2015 Value:	402,216	2015 Quantity:	26,244

USTR-2018-0025-12918, HTS 8526.69.4040 (Radar apparatus)