# Non-Tariff Trade Barriers in the U.S.-China Trade War*

Tuo Chen
Tsinghua University

Chang-Tai Hsieh
University of Chicago

Zheng (Michael) Song
Chinese University of Hong Kong

October 19, 2022

**Abstract**

We use Chinese customs data to show that unofficial non-tariff barriers were responsible for 50% of the overall reduction in Chinese imports from the U.S. during the height of the U.S.-China trade war in 2018 and 2019. We infer non-tariff barriers from the change in imports of U.S. products relative to imports from other countries of the same HS-6 product, after controlling for the change in the relative price of U.S. imports to the same product sold by other countries. These barriers were imposed on a small number of agricultural products, did not apply to state-owned importers, and were larger for products where the share of state importers in total imports of the U.S. product was large. Non-tariff barriers were responsible for more than 90% of the welfare cost to Chinese consumers of the U.S.-China trade war. The welfare loss to China of a given reduction in imports from the U.S. from non-tariff barriers is about six times larger than an equivalent import decline due to higher tariffs. Non-tariff barriers are more costly compared to tariffs because they applied to some importers and not others, which results in misallocation, and because non-tariff barriers do not generate revenues.

*We thank the data support from the Tsinghua China Data Center. This research was funded in part by Tsinghua University - University of Chicago Joint Research Center for Economics and Finance. This research was supported by Tsinghua University Initiative Scientific Research Program. Chen acknowledges financial support from Minoru Kobayashi China Economic Research Fund. We thank Jiandong Ju and seminar participants at BFI-China Research Conference, Chinese University of Hong Kong, Tsinghua University, Renmin University of China, as well as excellent research assistance from Katherine Bai, Shipeng Fu and Ningxin Zhang. Emails: chentuo@sem.tsinghua.edu.cn, chsieh@chicagobooth.edu, zheng.michael.song@gmail.com.

# 1 Introduction

In 2018 and 2019, trade between China and the U.S. collapsed as the two countries raised tariffs on products from the other country. In January 2020, in an effort to end their deepening trade war, China agreed to purchase more U.S. products in 2020 and 2021, and U.S. exports to China increased by 46% in these two years.[1] The agreement was specific in the amounts and products that China had to buy, but it did not stipulate that China had to lower tariffs on American products, and China did not lower the tariffs imposed in 2018 and 2019.

But how exactly did U.S. exports increase by almost 50% in these two years if there were no changes in Chinese tariffs? The answer is that higher Chinese imports of U.S. goods could not come from lower tariffs but rather from the use of opaque regulatory measures that, this time, favored U.S. exporters. For example, Chinese authorities might have made it clear to some importers that they would benefit from purchasing American goods, or could have ordered customs and health inspectors to favor U.S. products over those made by other countries.

Although much of the focus has been on the multiple rounds of tariff hikes in the two countries in 2018 and 2019, there is also abundant anecdotal evidence that China used similar opaque mechanisms in these two years, albeit to stifle U.S. exports to China. For example, on May 1, 2018, Chinese authorities announced that new permits were required to sell U.S. pet food in online stores. On May 3, 2018, health officials announced that imports of U.S. apples and lumber were to be inspected for "dangerous pests." And on October 26, 2018, officials of the Agriculture Ministry announced that the formula for pig feed was to change from 20% soybeans to only 12%.

Non-tariff barriers can have large effects on trade and welfare, but because of their opaqueness are difficult to measure. In this paper, we use simple demand theory and Chinese customs level data to infer the use of non-tariff barriers in the U.S.-China trade dispute between 2018 and 2020. This includes China's use of regulatory measures in 2018 and 2019 in the height of the trade war to punish American exporters, as well as in 2020 to *benefit* American exporters in China's effort to meet its purchase agreements under the Phase 1 agreement.[2]

We proceed in three steps. First, we estimate the elasticity of demand for an American import in China at the 6 digit harmonized system level. Specifically, we estimate import demand and export supply curves for agriculture and manufacturing goods, defined as a country and 6 digit harmonized system product pair, using the increase in tariffs on U.S. imports in 2018 and 2019 relative to imports from other countries as instruments for the demand and supply curves. The identifying assumption, which we attempt to validate in the data, is that changes in tariffs on U.S. imports across import varieties are orthogonal to supply shifts and the use of non-tariff barriers. We estimate the elasticity of substitution across HS-6 product-country pairs on the demand side of 3.6 for agricultural products and 2.2 for manufactured products. On the supply side, our estimates suggest that foreign export supply curves are essentially horizontal. This last result suggests that, as found by Fajgelbaum et al. (2019) in the case of American tariffs on Chinese products, the cost

[1] See Bown (2020) for details of the so-called Phase 1 purchase agreement. U.S. exports to China in 2019 were $123 billion.

[2] As we describe later, the customs level data we use ends in 2020.

of Chinese trade barriers, be it in the form of tariffs or regulatory procedures, were entirely borne by Chinese consumers.

Our second step is to use the estimates of the demand elasticities to infer non-tariff trade barriers from the import data. Specifically, we infer non-tariff barriers on U.S. imports of a given HS-6 product as the change in U.S. imports relative to imports from other countries for that product, after controlling for the effect of tariffs. Our estimates suggest that non-tariff barriers on U.S. imports increased significantly in 2018 and 2019, by an average of 56 percentage points (in tariff equivalent units) for agricultural products and by 17 percentage points for manufactured products. These hikes are significantly larger than the increase in tariffs on U.S. imports over the same period, which averaged 17 and 9 percentage points for agricultural and manufactured products, respectively. The use of non-tariff barriers were also much more targeted towards specific products compared to the tariffs. For example, our estimates suggest that the tariff equivalent of non-tariff barriers increased by almost 300 percentage points in 2018 and 2019 for the HS-2 categories "oil-seeds," "cereals," and "ores, slag and ash." More generally, we find that non-tariff barriers increased by more for agriculture products in which the U.S. has a larger share in Chinese imports of the product.

In addition, because of their opaqueness and unofficial nature, non-tariff barriers can be selectively used to target specific importers, while tariffs cannot. We find that non-tariff barriers increased primarily for non-state importers of U.S. agricultural products, whereas non-tariff barriers faced by state-owned importers were roughly unchanged in 2018 and 2019. Moreover, the products with a larger share of state importers before the trade war are more likely to be selected for non-tariff barriers, indicating that the government care more about state importers. The increase in non-tariff barriers in 2018 and 2019 for agricultural products were partially reversed in 2020, after China agreed to increase purchases of U.S. goods in early 2020, while the tariff hikes in 2018 and 2019 were kept in place in 2020. For manufactured products, we see no evidence that the increase in non-tariff barriers in 2018 and 2019 were reversed in 2020.

Third, we estimate the effect of non-tariff barriers and tariffs on Chinese welfare in a model that accounts for the reallocation of expenditures across source countries for a given HS-6 product and across HS-6 products, but not between imported and Chinese products. In this framework, higher tariffs on U.S. products lower Chinese welfare via their effect on the dispersion of consumer prices across source countries and products. In contrast, higher non-tariff barriers affect Chinese welfare via their effect on the mean and the dispersion of consumer prices for imported products across source countries and products. This is the well known distinction between tariffs and trade barriers that take the form of non-tariff barriers. The other distinction between tariffs and non-tariff barriers in our context is that non-tariff barriers, perhaps because of their opaque and unofficial nature, do not have to apply uniformly to all importers.

Using this framework, we find that about half of the overall decline in U.S. exports to China between 2017 and 2019 was due to higher tariffs and the other half due to higher non-tariff trade barriers. However, the vast majority of the welfare loss incurred by China from the trade war was due to non-tariff trade barriers rather than tariffs. Specifically, we find that China's welfare in

2019 is 40 billion US$ lower compared to 2017 due to the hike in trade barriers in 2018 and 2019, and 92% of the welfare loss was due to higher non-tariff trade barriers imposed in 2018 and 2019. We also use the model to simulate the effect of the actual change in tariffs and non-tariff barrier between 2017-2019 for each HS-6 product on imports from the U.S. and Chinese welfare. This calculation suggests that the welfare loss from higher non-tariff barriers is about six times larger than from a higher tariff that delivers the same import decline. Put differently, if the objective of the Chinese authorities was to "punish" the U.S. by lowering sales of American firms in China, non-tariff barriers were a particularly costly way to accomplish this objective.

The non-tariff barriers we attempt to measure are by design opaque, partly to provide plausible deniability to the Chinese authorities. Therefore, they are both difficult to measure and also could plausibly be driven by forces other than trade barriers on American products. We can not completely rule out this possibility, but we remind the reader of our finding that the non-tariff barriers increased in 2018 and 2019 only for some products and not others, only for non-state importers and not for state importers, and were almost completely reversed in 2020 after China agreed to purchase more U.S. products. In addition, we attempt to validate our measures of non-tariff barriers with external data. First, we rule out the possibility that what we infer as non-tariff trade barriers reflect changes in the quality or price of US products by showing that the American products where exports fall only do so in the Chinese market and not in other countries. Second, we attempt to validate our procedure of inferring non-tariff barriers in Mexico where we have direct measures of non-tariff barriers on imports from non-NAFTA countries in Mexico from a paper by Conconi et al. (2018).[3] As the last validity check, we find that news coverage on non-tariff barriers in the trade war spiked in late 2018 and early 2019. The dynamics are in line with the large increase in our estimated non-tariff barriers in 2017-19 and their reversal in 2000.

Our paper builds on several recent papers on the effect of the U.S.-China trade war on American consumers, including Amiti, Redding and Weinstein (2019), Fajgelbaum et al. (2019), Waugh (2019), Flaaen, Hortaçsu and Tintelnot (2020), and Cavallo et al. (2021). In particular, we borrow Fajgelbaum et al. (2019)'s procedure to estimate demand and supply elasticities of American exports to China. We also find, as they do, that export supply curves are essentially elastic so the cost of the trade barriers are entirely borne by consumers. We differ from these papers in that we examine the effect of trade barriers on American exports on Chinese consumers, and we focus on the use of non-tariff trade barriers in addition to tariffs.[4]

Our paper also builds on Khandelwal, Schott and Wei (2013)'s important paper that examines the effect of *export* quotas allocated to Chinese state owned firms. Our paper examines the effect of non-trade barriers facing non-state vs. state-owned *importers*. And as in Khandelwal, Schott and Wei (2013), our point is that efficiency costs of non-tariff trade barriers can be large if such barriers apply to some firms and not to others. Benguria and Saffie (2021) also find, as we do, that

[3]The direct measures of non-tariff barriers on Mexican imports are based on the "rules of origin" that apply to the intermediate inputs of a product.

[4]Flaaen and Pierce (2019), Amiti, Kong and Weinstein (2020), Handley, Kamal and Monarch (2020), and Goswami (2020) investigate the effect of the trade war on the supply side of the US economy.

variation across products in U.S. exports to China is correlated with the presence of state owners in the particular product. Our paper differs in that we impute non-tariff barriers from the basis of structural model, and we use the model to measure the welfare loss from such barriers. We also use detailed Chinese customs data to separately measure the incidence of non-tariff barriers on state vs. non-state importers.

Finally, Ma, Ning and Xu (2021) and Liu (2020) also use the Chinese customs data to show that Chinese import quantity dropped significantly in products where China increased tariffs on these products. Using high-frequency night lights data and measures of the trade exposure of fine grid locations, Chor and Li (2021) find that a one-percentage-point increase in exposure to the US tariffs led to a 0.6% reduction in night-time luminosity. Chang, Yao and Zheng (2020) quantify the welfare cost of higher tariffs on Chinese welfare. Our paper differs in that our focus is on the non-tariff trade barriers, which we argue was the main instrument used by China in the trade war.

The paper proceeds as follows. First, we discuss the data and present preliminary facts that are suggestive of the presence of non-tariff trade barriers. We then propose a theoretical framework to measure the effect of non-tariff trade barriers (as well as tariffs). The next section then uses the theoretical framework to impute the change in non-tariff trade barriers between 2017 and 2020. We then use the estimates of non-tariff barriers and quantify their effect (as well as the effect of tariffs) on welfare. The following section provides several robustness checks. The last section concludes.

## 2 Data and Facts

We use the administrative data from China's customs agency from 2015 to July 2020.[5] The data is at the transaction level, with information on importer's ownership and location, source country, quantity, *cif* price, and the HS-6 code of the imported product. The aggregated imports of each HS-6 product are consistent with those in the Comtrade data. Individual importers are not identifiable. We can only distinguish imports of state- and non-state-owned importers. To make the observations in 2020 comparable to the earlier ones, we only use the monthly data from January to July in each year and aggregate the monthly data over these seven months in each year.

The tariff data is constructed in two steps. First, we get the MFN tariff data from the World Trade Organization. Then we add the tariff raised in the trade war against the US, starting on 04/02/2018, ending on 12/26/2020.[6] We calculate the annual average tariff as the weighted average over the year of the tariff at each date of the year.[7] We then merge the tariff data with the customs data using HS 2012 system.[8] Our final dataset has annual total quantities and average tariff rate

[5]The data can be accessed on-site at the Tsinghua Data Center. See http://www.tcdc.sem.tsinghua.edu.cn/ for instructions on how to access the data.

[6]We compile the list of Chinese tariffs on U.S. products from the official documents released by the Customs Tariff Commission of the State Council between 2018 and 2020. The specific documents with official announcement of tariffs are 2018 Document No. 5 to 8, 10, and 13; 2019 Document No. 1 to 8; 2020 Document No. 1, 3, 4, 8 and 10.

[7]For example, the tariff on U.S. beans was increased by 25% on 07/06/2018, and stayed at the same level until 2020. We impute the average tariff on U.S. beans as $25\% \times \frac{179}{365}$ in 2018, and 25% in both 2019 and 2020.

[8]We use the concordance between HS 2012, HS 2017, and SITC 4 from https://unstats.un.org/unsd/trade/

of each HS-6 product (946 in total) by state-owned and non-stated-owned importers and by source country for 2015 to 2020, and the average tariff rate of each HS-6 product-source country in each year.

Table 1 shows the weighted average level of Chinese tariffs on U.S. goods and the U.S. share of Chinese imports from 2015 to 2020.[9] During the period of the trade war from 2017 to 2019, tariffs on U.S. products increased and the share of U.S. imports fell, as one might expect, with a larger effect on agricultural products compared to manufactured products. In 2020, during the first year of phase 1 of the trade agreement signed in January 2020, the average U.S. share of Chinese agricultural imports increased from an 13.7% to 17.2%, without any reduction in Chinese tariffs on imports of these products from the U.S. Table 1 also shows that there was no increase in the U.S. share of Chinese imports in manufacturing in 2020, and no change in tariffs on U.S. manufacturing goods.

Table 1: US Tariffs and Import Share

| | 2015 | 2017 | 2019 | 2020 |
|---|---|---|---|---|
| **Agriculture** | | | | |
| Average Tariff rate | 7.6% | 7.5% | 24.5% | 26.0% |
| Average U.S. import share | 20.7% | 21.7% | 13.7% | 17.2% |
| **Manufacturing** | | | | |
| Average Tariff rate | 5.2% | 5.6% | 14.6% | 14.8% |
| Average U.S. import share | 10.5% | 9.5% | 8.4% | 7.4% |

Notes: Table shows weighted average of the tariff rate of each HS-6 product and imports from the U.S. as a share of total Chinese imports of the product for agricultural (top panel) and manufacturing products (bottom panel). Weights are share of imports on the HS-6 product in total imports in 2017.

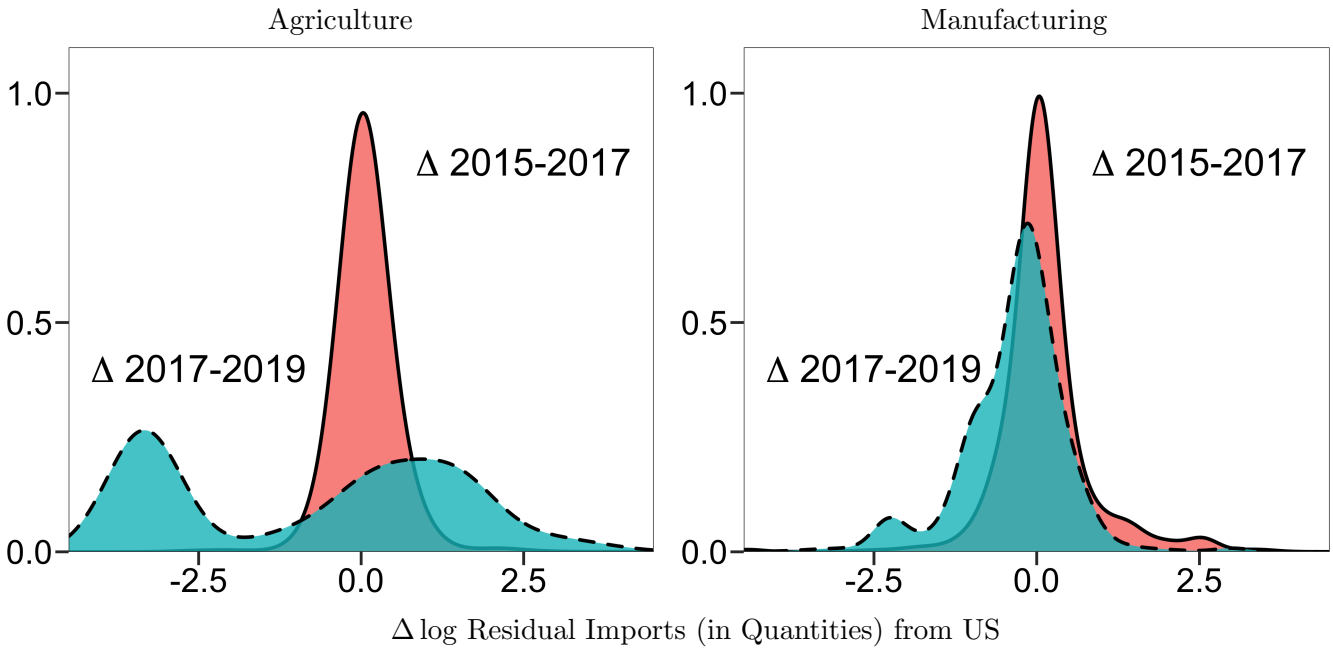
The fact that the U.S. share of agricultural imports in China increased in 2020, despite no decrease in tariffs, suggests that non-tariff mechanisms were used to increase purchases of U.S. agricultural products in 2020. We now probe for evidence that non-tariff mechanisms were also used during the trade war in 2017-2019. We regress the change in log import quantities from all countries on the change in the tariff rate with fixed effects for each HS-6 product interacted with year. Figure 1 plots the residuals of the U.S. from a regression of the change in log import quantities for each source country and HS-6 product pair on the change in tariffs. The left panel shows the distribution of residual import growth between 2015-2017 and 2017-2019 for agricultural, the right panel shows the same for manufactured products.

The figure shows that the distribution of residual import growth of agricultural imports shifted to the left between 2017 and 2019; the mean growth rate falls by 0.87 log points from 2015-2017 to 2017-2019. The dispersion of the residual import growth of agricultural products from the U.S. also widens considerably; the variance of the growth rate increased 18 folds from 0.296 between

`classifications/correspondence-tables.asp`.

[9] Unless otherwise indicated, we use the expenditure share of the HS-6 product in 2017 as the weight.

Figure 1: Distribution of import growth residuals for U.S. products




Notes: Unit of observation is a HS-6 product. Figure plots growth rate between 2015-2017 and 2017-2019 of import quantities of U.S. agricultural (left panel) and manufactured products (right panel) after controlling for the change in the tariff rate.

2015-2017 to 5.31 between 2017-2019. The right column shows that the dispersion across HS-6 products of residual import growth for U.S. manufactured products also increased between 2017-2019 compared to 2015-2017 but by much less compared to agricultural products.

The dispersion in the residual import growth in Figure 1 reflects differences in residual import growth across HS-6 products. Table 2 probes for evidence of heterogeneity across state vs. non-state importers in the decline of U.S. imports. The table shows the weighted average of the share of state-owned firms in total imports, separately for U.S. products and for products from the rest of the world. The top panel shows the state share of agricultural imports, and the bottom panel for manufacturing imports. The share of state-owners in agricultural imports from the U.S. roughly doubled in 2019, before falling to the "normal" share of about 20%. As for imports of manufactured products from the US, the state share declines gradually over this period. The table also shows that the share of state-owners in imports from other countries (non-US) did not change over this period. The stark contrast between the non-state and state-owned importers helps explain the bimodal distribution in the growth rate of agricultural imports from the US in the left panel of Figure 1.

Table 2: Share of Imports by State-Owned Firms

| | 2015 | 2017 | 2019 | 2020 |
|---|---|---|---|---|
| **Agriculture** | | | | |
| U.S. | 24.0% | 19.3% | 39.8% | 19.8% |
| Rest of World | 21.5% | 19.8% | 21.4% | 21.3% |
| **Manufacturing** | | | | |
| U.S. | 20.4% | 16.2% | 11.5% | 10.5% |
| Rest of World | 13.1% | 13.7% | 15.0% | 15.4% |

Notes: Table shows weighted average of the share of state-owned firms in total imports in each HS-6 product for agricultural products (top panel) and manufactured products (bottom panel) from the U.S. and the rest of the world.

# 3 Welfare Effect of a Trade War

In this section, we lay out a simple model to illustrate how tariffs and non-tariff trade barriers affect welfare.

Utility of a representative consumer from imports is given by:

$$\text{Utility} = \left( \sum_i C_i^{\frac{\sigma-1}{\sigma}} \right)^{\frac{\sigma}{\sigma-1}} \tag{1}$$

where $i$ is a HS-6 product, $\sigma$ is the elasticity of substitution between HS-6 products, and $C_i$ is aggregate consumption of product $i$ defined as:

$$C_i = \left( \sum_j C_i^{j\,\frac{\eta-1}{\eta}} \right)^{\frac{\eta}{\eta-1}} \tag{2}$$

where $j$ is a local firm that imports product $i$, $\eta$ is the elasticity of substitution between local firms, and $C_i^j$ is aggregate consumption of product $i$ sold by firm $j$ defined as:

$$C_i^j = \left( \sum_f \left( b_{if}^j \, C_{if}^j \right)^{\frac{\epsilon-1}{\epsilon}} \right)^{\frac{\epsilon}{\epsilon-1}} \tag{3}$$

where $f$ is a country selling in the Chinese market, $\epsilon$ is the elasticity of substitution between imports of a given product by a given firm across source countries, $C_{if}^j$ denotes consumption of product $i$ from country $f$ sold by local firm $j$, and $b_{if}^j$ is a time-invariant preference parameter. Equation 2 implicitly assumes that trade barriers on a given country affects the allocation of expenditures across the foreign countries that sell to China, but has no effect on the allocations between foreign and domestic products.[10]

[10] We relax this assumption in Section 6.

The *shadow* price of product $i$ from country $f$ faced by firm $j$ is:

$$\text{Shadow Price}_{if}^{j} = \left(1 + \phi_{if}^{j}\right)\left(1 + \tau_{if}\right) p_{if} \tag{4}$$

where $\tau_{if}$ is the ad-valorem tariff, $\phi_{if}^{j}$ is the tariff-equivalent of the non-tariff trade barriers, and $p_{if}$ is the *cif* price given by:

$$p_{if} = \tilde{p}_{if}\left(\sum_{j} C_{if}^{j}\right)^{\frac{1}{\gamma}} \tag{5}$$

where $\tilde{p}_{if}$ is the vertical intercept of the foreign supply curve and $\gamma$ is the supply elasticity. We assume that all firms pay the same tariff rate $\tau_{if}$ but non-tariff trade barriers can be applied differently across importing firms so $\phi_{if}^{f}$ is also indexed by firm $j$.

Finally, we assume that tariff revenues are rebated to the consumer. This assumption, combined with the demand functions implied by equations 1-3 and the shadow price in equation 4), yields the following expression for indirect utility $V$:

$$V = \left(\sum_{i}\left[\sum_{j}\left(\sum_{f}\left[b_{if}^{j}\frac{(1+\overline{\tau})}{(1+\phi_{if}^{j})(1+\tau_{if})\,p_{if}}\right]^{\varepsilon-1}\right)^{\frac{\eta-1}{\varepsilon-1}}\right]^{\frac{\sigma-1}{\eta-1}}\right)^{\frac{1}{\sigma-1}} \tag{6}$$

where the *cif* price $p_{if}$ is given by equation 5, $\bar{\tau}$ is the weighted average across HS-6 products of the weighted average of $\tau_{if}$ across all source countries for each HS-6 product.[11]

Trade policy then affects welfare via three channels. First, tariffs affect welfare through the *dispersion* of $\tau_{if}$ across source country $f$, with an elasticity that depends on $\epsilon$, and via the dispersion of the average tariff rate across HS-6 products, with an elasticity that depends on $\sigma$. Changes in tariffs that leave the $\bar{\tau}$ unchanged have no effect on welfare.

Second, non-tariff trade barriers that affect all firms equally affects welfare through changes in the dispersion *and* via the mean of $\phi$. The welfare effect of trade barriers that take the form of non-tariff trade barriers differs from tariffs only because the tariff revenues are rebated to the consumer, whereas the lost revenues from the non-tariff trade barriers are not. This is the well-known distinction between tariffs and non-tariff barriers.

Third, a feature of non-tariff trade barriers, at least as practiced by China during the trade war with the US, is that these barriers were not publicly disclosed. This "secrecy" may imply that these barriers were not uniformly implemented. To the extent non-tariff trade barriers applied with more force to some firms compared to other firms, their welfare effect will also depend on the dispersion of $\phi$ across *firms* and the elasticity $\eta$.

The main empirical challenge is that, as opposed to tariffs, the opaqueness of non-tariff trade barriers makes them difficult to measure. We use the structure of the theory along with patterns in the changes in imports to infer the magnitude of these non-tariff trade barriers.

[11] $1+\bar{\tau} \equiv \left(\sum_{i}\frac{F_i}{F}\left(\sum_{f} b_{if}^{j}(1+\tau_{if})^{1-\varepsilon}\right)^{\frac{\sigma-1}{\varepsilon-1}}\right)^{\frac{1}{1-\sigma}}$, where $F_i$ is the number of source countries that sell product $i$ in China and $F$ is the sum of $F_i$ across all products $i$. Equation 6 also normalizes aggregate nominal expenditures to 1.

Specifically, suppose that non-tariff trade barriers are applied differently for state vs. non-state importers (but are applied equally for all state and all non-state importers). From the demand function for products sold by a given firm type implied by equation 3, we get:

$$\Delta \log \left( \frac{C_{if}^s}{C_{if}^n} \right) = \left( 1 - \frac{\epsilon}{\eta} \right) \Delta \log \left( \frac{C_i^s}{C_i^n} \right) - \epsilon \, \Delta \log \left( \frac{1 + \phi_{if}^s}{1 + \phi_{if}^n} \right) \tag{7}$$

where $\phi_{if}^s$ and $\phi_{if}^n$ denote non-tariff barriers faced by state owned and non-state importers. The first term on the right hand side in equation 7 is the ratio of aggregate import quantity of product $i$ of the state vs. non-state importers. This term is common to all countries that sell product $i$ in China. The second term is the change in the ratio of non-trade barriers facing state importers vs. non-state importers of product $i$ from country $f$. This second term varies by source country. Equation 7 thus says that, up to a constant term common to all source countries, we can infer the ratio of the change in non-tariff barriers faced by state vs. non-state importers of a particular product from the U.S. from data on the ratio of the change in imports by state vs. non-state firms of the U.S. product.

We now turn to the imputation of the non-tariff trade barriers for non-state importers. The change in imports by non-state importers of product $i$ from the US relative to imports of the same product from another country is given by:

$$\Delta \log \left( \frac{C_{i,us}^n}{C_{if}^n} \right) = -\epsilon \, \Delta \, \log \left( \frac{p_{i,us}}{p_{if}} \cdot \frac{1 + \tau_{i,us}}{1 + \tau_{if}} \right) - \epsilon \, \Delta \, \log \left( \frac{1 + \phi_{i,us}^n}{1 + \phi_{if}^n} \right) \tag{8}$$

The first term on the right hand side is the change in the product of the *cif* price and the tariff of imports of good $i$ from the U.S. relative to same of country $f$. The second term is the change in the non-tariff trade barriers facing non-state importers of U.S. goods relative to imports of the same good from country $f$. Conditional on data on *cif* prices and tariffs and an estimate of the demand elasticity $\epsilon$, equation 8 says that, using data on changes in imports from the U.S. by non-state firms relative to imports of the same product from another country, we can infer the change in the *ratio* of non-tariff trade barriers faced by non-state importers of U.S. imports relative to non-tariff barriers on the same product made by another country.

This only gets us the ratio of non-tariff trade barriers facing U.S. goods to the same good made by another country. To infer the non-tariff barrier faced by U.S. goods only, we make one normalization, which is that the weighted average of the change in non-tariff barriers faced by non-state importers of products sold all countries except the US across all imports is zero.[12] This normalization, along with equation 8, then allows us to infer the change in non-tariff barriers faced by non-state importers of U.S. products. This number, combined with the estimate of the ratio of non-tariff barriers of state vs. non-state importers of a product from the U.S. we get from equation 7, then allows us to back out non-tariff barriers faced by *state* importers of the U.S. product.

[12] Specifically we assume $\sum_i \sum_{f \neq us} \omega_{if} \Delta \log \left(1 + \phi_{if}^n\right) = 0$ where $\omega_{if}$ is the expenditure share of product $i$ from country $f$ in the total expenditure of non-US imports in China in 2017.

In summary, we impute the change in non-tariff trade barriers faced by non-state importers of U.S. goods as the residual of the change in the ratio of imports from the U.S. to imports from other countries selling the same product in the Chinese market, after controlling for the ratio of the change in the *cif* price, inclusive of tariffs. This number then allows us to impute the non-tariff barriers faced by state-owned importers of the same good from the ratio of the change in imports of state-owned vs. non-state importers of the same good from the U.S.

# 4 Estimates of Model Parameters and Non-tariff Trade Barriers

The model is summarized by three forcing variables ($\tau_{if}$, $\phi^n_{if}$, and $\phi^s_{if}$) and four parameters ($\epsilon$, $\eta$, $\sigma$, and $\gamma$). The three forcing variables vary by country-HS6 product. We assume that the four parameters vary by agriculture and manufacturing but otherwise are the same for all HS-6 products.

## 4.1 Model Parameters

We first estimate the model parameters. We start with the supply elasticity $\gamma$ and the elasticity of demand for imports of the same product between source countries $\epsilon$. Specifically, after substituting equations 4 and 5 into the CES demand implied by the preferences in equation 3, the change in import demand and *cif* price of product $i$ from country $f$ are given by:

$$\Delta \log C_{if} = -\frac{\epsilon\,\gamma}{\epsilon+\gamma}\left[\Delta \log\left(1+\tau_{if}\right) + \Delta \log\left(1+\bar{\phi}_{if}\right) + \Delta \log \widetilde{p}_{if}\right] + \mathbb{I}_{if} \tag{9}$$

$$\Delta \log p_{if} = -\frac{\epsilon}{\epsilon+\gamma}\left[\Delta \log\left(1+\tau_{if}\right) + \Delta \log\left(1+\bar{\phi}_{if}\right)\right] + \frac{\gamma}{\epsilon+\gamma}\Delta \log \widetilde{p}_{if} + \mathbb{I}_{if} \tag{10}$$

where $C_{if}$ are total import quantity, $\bar{\phi}_{if}$ is a weighted average of the non-tariff trade barriers on imports of product $i$ from country $f$, and $\mathbb{I}_{if}$ is a vector of product fixed effects interacted with source country fixed effects.[13] Under the assumption that the change in tariffs is orthogonal to the change in non-tariff trade barriers and supply shifts, we can use the variation in the change in import quantities and tariffs across source countries of a given product to estimate the demand and supply elasticities.[14] Specifically, a regression of $\Delta$ log import quantity on $\Delta$ log tariff with product-country fixed effects yields a coefficient of $-\frac{\epsilon\,\gamma}{\epsilon+\gamma}$ on the change in tariffs. A similar regression of $\Delta$ log *cif* price on $\Delta$ log tariff yields a coefficient of $-\frac{\epsilon}{\epsilon+\gamma}$.

The first two rows in the top panel in Table 3 shows the estimates from the regressions at the product-country level of the change in import quantities (equation 9) and the change in the *cif* price (equation 10) on the change in tariffs. In the estimates shown in the first column, we pool annual data from 2015 to 2019 for all agricultural products from all countries, and show the coefficient on the change in tariffs in equation 9 (row 1) and equation 10 (row 2). The second column does the same for the sample of manufactured products from 2015 to 2019. All the regressions include

[13] $1+\bar{\phi}_{if} \equiv M_{if}^{-1}\left(\sum_j b_{if}^j (1+\phi_{if}^j)^{1-\eta}\right)^{\frac{1}{1-\eta}}$, where $M_{if}$ is the number of importers of each country-product pair.
[14] We examine this assumption in Section 6.

product-country fixed effects and year fixed effects so we only use the over-time variation in tariffs for each HS-6 product across source countries.

Table 3: Elasticity of Import Quantities and Price to Tariffs

| | Agriculture | Manufacturing |
|---|---|---|
| **Elasticity with respect to tariff** | | |
| Import Quantity Elasticity | −3.108 | −2.335 |
| | (0.266) | (0.112) |
| *cif* Import Price Elasticity | -0.074 | -0.033 |
| | (0.084) | (0.084) |
| Aggregate Quantity Elasticity | −1.469 | −1.248 |
| | (0.122) | (0.036) |
| **Demand and supply elasticities** | | |
| Demand across source country $\epsilon$ | 3.36 | 2.34 |
| Supply $\gamma$ | 42 | 71 |
| Demand across products $\sigma$ | 1.47 | 1.25 |

Notes: Top panel shows coefficient from regressions of $\Delta$ log import quantities (first row) or $\Delta$ log cif price (second row) of each HS6 product-source country on $\Delta$ log (1 + tariff rate) on annual observations of agricultural products (column 1) or manufacturing products (column 2) from 2015 to 2019. Third row shows coefficient from regressions of $\Delta$ log aggregate imports at the HS-6 product level on change in the log of the aggregate tariff rate of each HS-6 product. All regressions include product-country and year fixed effects. Bottom panel shows the demand elasticity of substitution across source countries $\epsilon$, supply elasticity $\gamma$, and demand elasticity of substitution across HS-6 products $\sigma$ implied by the coefficient estimates in the top panel.

The first row in Table 3 shows that, as expected, imports from a given source country falls when the tariff rate on imports from the country increases. The elasticity of import quantities with respect to tariffs is -3.1 for agriculture and about -2.3 for manufacturing. The second row shows that the *cif* import price of agricultural products declines slightly by more for imports from countries where tariffs increase, suggesting that some of the incidence of higher Chinese tariffs on agricultural products are borne by the producers. The elasticity of the *cif* import price for manufactured products is even closer to zero.

The bottom panel in Table 3 shows the elasticity of demand $\epsilon$ across countries and supply $\gamma$ implied by the elasticity of imports and import prices to tariffs. The elasticity of substitution for agricultural products is 3.36 and 2.34 for manufactured products. The supply elasticity is 42 for agricultural products and 71 for manufactured products. These supply elasticities imply that almost all the cost of Chinese trade barriers are passed onto Chinese consumers in the form of higher prices.

As for the elasticity of substitution between state and non-state importers $\eta$, we borrow the

estimates of Khandelwal, Schott and Wei (2013) who measure the change in the market shares and prices paid by state vs. non-state exporters in response to the elimination of export quotas allocated to state owned firms in the early 1990s. Their numbers suggests that $\eta = 2.8$ so we set $\eta = 3$ for our benchmark case.[15]

We now turn to the elasticity of substitution between products $\sigma$. Note that the estimates of $\gamma$ in Table 3 based on the variation in import quantities and prices across source countries are "large." When $\gamma$ is sufficiently large, the change in the CES aggregate of imports of product $i$ is given by:

$$\Delta \log C_i = -\sigma \left[ \Delta \log \left(1 + \bar{\tau}_i\right) + \Delta \log \left(1 + \bar{\phi}_i\right) + \Delta \log \bar{p}_i \right] + \mathbb{I}_i \tag{11}$$

where $\bar{\tau}_i$, $\bar{\phi}_i$, and $\bar{p}_i$ denote the weighted average of the tariff rate, non-tariff trade barriers, and the intercept of the foreign supply curve $\tilde{p}_{if}$ of product $i$, and $\mathbb{I}_i$ is a vector of product fixed effects.[16] Under the assumption that the change in tariffs is orthogonal to the change in non-tariff trade barriers, we can estimate $\sigma$ using the variation of change in tariffs across products.

The estimates of equation 11 are shown in the third row in the top panel in Table 3.[17] As can be seen, there is a negative correlation between total imports and the average tariff at the HS6 level, and the elasticity of substitution between HS-6 products implied by these elasticities are $\sigma = 1.47$ for agriculture and $\sigma = 1.25$ for manufacturing.

### 4.2 Non-Tariff Barriers on US goods

With estimates of $\epsilon$, we can now estimate the change in non-tariff trade barriers on U.S. goods from equations 7 and 8. The first two columns in Table 4 show the data moments that go into this calculation. The first column shows the weighted average of the change in import quantities from the U.S. relative to the sum of import quantities from other countries of the same HS-6 product. The ratio of import quantities of agricultural products from the U.S. to import quantities from other countries fell by 2.4 log points between 2017-2019 and increased by 1.7 log points between 2019-2020. The bottom panel shows that the ratio of U.S. manufactured products to products of

[15] Specifically, we estimate the elasticity of substitution $\eta$ between state and non-state trading firms as $\eta = 1 - \frac{\Delta \ln(S^s/S^n)}{\Delta \ln(P^s/P^n(1+\phi))}$ where $S$ denotes the market share, $P$ is the price index, and $\phi$ is the tariff-equivalent of the license fee that non-state exporters have to pay but state exporters do not. In Khandelwal, Schott and Wei (2013)'s data (Table 3), the change in the market share is -0.14 and 0.10 for state and non-state exporters and the initial market shares of state and non-state firms are 0.26 and 0.17 (these last two numbers are reported in the working paper version of Khandelwal, Schott and Wei (2013)). The weighted price change for state and non-state exporters are -0.11 and -0.10, and the initial level of prices are 0.26 and and 0.17 for state and non-state exporters (Tables 4 and 5 in Khandelwal, Schott and Wei (2013)) The price changes are then -0.11/0.26 and -0.10/0.17 for each type of exporter. The tariff equivalent of the license fee estimated by Khandelwal, Schott and Wei (2013) is $\phi = 0.14$. These numbers imply that $\eta = 2.8$. An alternative to the estimates in Khandelwal, Schott and Wei (2013) is Brandt et al. (2017)'s estimates of industry-specific markups using the Chinese firm-level data. Their estimates of the markup vary between 0.2 and 0.4, implying a range of 3.5 and 6 for $\eta$.

[16] $1 + \bar{\phi}_i \equiv {M_i}^{-1} \left( \sum_j \left( \sum_f b_{if}^j (1 + \phi_{if}^j)^{1-\varepsilon} \right)^{\frac{\eta-1}{\varepsilon-1}} \right)^{\frac{1}{1-\eta}}$ and $1 + \bar{p}_i \equiv {F_i}^{-1} \left( \sum_f b_{if}^j (1 + p_{if})^{1-\varepsilon} \right)^{\frac{1}{1-\varepsilon}}$ where $M_i$ is the number of importers-source country and $F_i$ is the number of source countries for each product $i$.

[17] We use data on imports and the estimates of $\epsilon$ and $\eta$ in Table 3 to calculate the CES aggregate of imports of a product $C_i$ on the left hand side of equation 11. We also calibrate the preference parameters $b_{if}^j$ by assuming that non-tariff barriers are zero in 2017.

other countries selling in the Chinese market also fell between 2017-2019, but much less than for agricultural products.

The second column shows the change between 2017-19 and 2019-2020 in the log import price of U.S. goods (inclusive of the tariff) of a HS-6 product relative to the weighted average of the import price of the same HS-6 product of other countries selling to China. The price of U.S. agricultural products increased by 0.13 log points during the trade war of 2017-19, and was basically unchanged during the first year of the first phase of the trade agreement.

The last three columns then show the change in the tariff equivalent of non-tariff trade barriers on U.S. imports calculated as the residual of changes in the import share of U.S. products, after controlling for the effect of changes in import prices on the import share. The first row shows that non-tariff barriers were essentially unchanged between 2015 and 2017 (prior to the trade war). The second row shows that the tariff equivalent of non-tariff trade barriers on agricultural products on non-state importers increased by 0.73 log points between 2017-2019. In contrast, non-tariff trade barriers on state importers did not change between 2017 and 2019.

The third row shows the change in non-tariff trade barriers calculated over the entire 2017-2020 period (trade war plus the first year of the Phase 1 agreement). This includes the trade war in 2018 and 2019 and the first year of the Phase 1 agreement in 2020. It shows that average non-tariff trade barriers over the entire period increased by 0.14 log points compared to an increase of 0.60 log points between 2017 and 2019. The logical implication then is that much of the non-tariff trade barriers put in place in 2018 and 2019 were reversed in 2020. Specifically, a regression at the HS-6 product level of the change in non-tariff barriers on U.S. products between 2019 and 2020 on the change in non-tariff barriers between 2017 and 2019 of the same HS-6 yields a precisely estimated coefficient of -0.837 (s.e: 0.028). The coefficient is not $-1$ so the reversion in 2020 of the hike in non-tariff barriers between 2017 and 2019 was not complete. In addition, the reversal in non-tariff trade barriers is also entirely due to changes in barriers on purchases of U.S. agricultural products by non-state importers, while there was no change on non-tariff trade barriers facing state importers.

The bottom panel in Table 4 shows that the decline in U.S. manufacturing imports between 2017 and 2019 was smaller than in agriculture. The main reason is that the increase in average non-tariff trade barriers is much smaller than in manufacturing. The tariff equivalent of non-tariff trade barriers in manufacturing was essentially unchanged, while the increase in agriculture was .60. In addition, the dispersion across products in the change in non-tariff barriers is roughly comparable to the dispersion in the change in tariff-inclusive prices.

Table 5 shows the change in non-tariff barriers and tariffs between 2017 and 2019 for HS 2-digit sectors. This table shows that non-tariff barriers were focused on a small number of products. Non-tariff barriers increased the most for "oil seeds" and "cereals," by 1 and 1.5 log points respectively. The increase in the tariff rate for the same products were significantly lower, at 0.15 and 0.25 log points for "oil seeds" and "cereals" respectively. On the other hand, tariff rates increased by 0.28 log points for products classified as "beverages, spirits and vinegar" whereas the change in non-tariff barriers we impute is negative. For manufactured products, non-tariff barriers were particularly

Table 4: Mean of Δ Non-Tariff Barriers on U.S. Imports

| | Δ Import Quantities | Δ *cif* price + tariff | Δ Non-Tariff Barriers Non-State | State | Average |
|---|---|---|---|---|---|
| **Agriculture** | | | | | |
| Pre Trade War (2015-17) | 0.201 | 0.004 | -0.119 | -0.076 | -0.112 |
| Trade War (2017-19) | -2.44 | 0.127 | 0.725 | 0.023 | 0.604 |
| Trade War and Phase 1 (2017-2020) | -0.731 | 0.133 | 0.152 | 0.052 | 0.138 |
| **Manufacturing** | | | | | |
| Pre Trade War (2015-17) | 0.159 | -0.012 | -0.113 | -0.135 | -0.122 |
| Trade War (2017-19) | -0.287 | 0.200 | -0.066 | 0.156 | -0.015 |
| Trade War and Phase 1 (2017-2020) | -0.569 | 0.214 | 0.131 | 0.342 | 0.183 |

Notes: Table shows mean across HS-6 products in agriculture (top panel) and manufacturing (bottom panel). Column 1 shows the change in log U.S. import quantities relative to import quantities from all other countries; Column 2 shows the change in the log *cif* price of U.S. imports inclusive of tariffs relative to other importers; Columns 3 and 4 show the change in non-tariff trade barriers on non-state importers and state importers estimated from the change in imports after removing the effect of the change in import prices using the estimates of $\epsilon$ in Table 3 using equations 7 and 8. Column 5 shows weighted average of Δ non-tariff barriers of non-state and state importers of U.S. products.

large for "ores, slag and ash" where the tariff equivalent of non-tariff barriers increased by 1.11 log points.

Recall that tariffs on U.S. products affect Chinese welfare via their effect on the dispersion of the tariff rate, and higher non-tariff trade barriers on U.S. products affect welfare through their effect on the mean *and* the dispersion of non-tariff trade barriers across all source countries, state vs. non-state importers, and across products. Table 6 shows the mean and standard deviation of tariffs $\log(1+\tau_{if})$, non-tariff barriers $\log(1+\phi_{if})$, and the product of tariffs and non-tariff barriers $\log(1+\tau_{if})(1+\phi_{if})$ across these three dimensions (source country, state vs. non-state importer, and product).

The top panel in Table 6 shows the results for agricultural HS-6 products. The first row shows the weighted average of the mean and standard deviation of $\Delta\log(1+\tau_{if})$ between the two years of the trade war (2017-2019) and for the entire 2017-2020 period. The overall dispersion of tariff rates increased by 0.07 log points between 2017 and 2019, and basically did not change in 2020.

The second row in Table 6 shows the change in non-tariff trade barriers in tariff equivalent units. Here, both the mean and the dispersion of non-tariff trade barriers matter for welfare. The mean of $\log(1+\phi_{if})$ increases by 0.11 log points and the standard deviation by 0.49 log points in 2018 and 2019, so the increase in the mean and the dispersion in non-tariff trade barriers is much higher than the increase in tariff barriers.

Table 5: Δ Non-Tariff Barriers and Tariffs on U.S. Products by HS2 Product, 2017-2019

| | US Share of Imports | Δ Tariff | Δ Non-Tariff Barriers |
|---|---|---|---|
| **Agriculture** | | | |
| Oil seeds, oleaginous fruits | 9.11 % | 0.145 | 1.006 |
| Pulp of wood, recovered paper | 2.47 % | 0.176 | 0.247 |
| Wood and articles of wood | 1.73 % | 0.149 | 0.105 |
| Cereals | 0.99 % | 0.250 | 1.492 |
| Cotton | 0.77 % | 0.250 | -0.204 |
| Meat and edible meat offal | 0.60 % | 0.533 | -0.127 |
| Fish and crustaceans | 0.58 % | 0.282 | -0.083 |
| Raw hides and skins and leather | 0.56 % | 0.030 | 0.004 |
| Rubber and articles thereof | 0.39 % | 0.119 | 0.370 |
| Fruit and nuts | 0.38 % | 0.428 | -0.392 |
| Food industries, residues and wastes thereof | 0.30 % | 0.139 | 0.688 |
| Dairy produce, birds' eggs | 0.25 % | 0.201 | 0.309 |
| Miscellaneous edible preparations | 0.23 % | 0.063 | -0.188 |
| Preparations of vegetables | 0.16% | 0.115 | 0.089 |
| Beverages, spirits and vinegar | 0.07% | 0.283 | -0.108 |
| Preparations of cereals | 0.06 % | 0.156 | -0.193 |
| Sugars and sugar confectionery | 0.05 % | 0.100 | -0.102 |
| Animal or vegetable fats, oils | 0.04 % | 0.166 | -0.027 |
| Vegetables and certain roots and tubers | 0.03 % | 0.199 | 0.223 |
| Wool, fine or coarse animal hair | 0.01 % | 0.188 | 0.136 |
| **Manufacturing** | | | |
| Electrical machinery and parts | 1.52 % | 0.063 | -0.191 |
| Nuclear reactors and machinery | 1.43 % | 0.070 | -0.080 |
| Vehicles and parts and accessories thereof | 1.39 % | 0.002 | 0.366 |
| Aircraft, spacecraft and parts thereof | 1.05 % | 0.001 | 0.186 |
| Optical instruments | 1.02 % | 0.073 | -0.269 |
| Plastics and articles thereof | 0.62 % | 0.098 | -0.059 |
| Pharmaceutical products | 0.32 % | 0.007 | -0.048 |
| Organic chemicals | 0.30 % | 0.101 | 0.091 |
| Chemical products n.e.c. | 0.27 % | 0.030 | -0.172 |
| Copper and articles thereof | 0.13 % | 0.233 | -0.102 |
| Iron or steel articles | 0.11 % | 0.137 | -0.111 |
| Aluminium and articles thereof | 0.10 % | 0.371 | -0.221 |
| Inorganic chemicals | 0.08 % | 0.099 | 0.328 |
| Glass and glassware | 0.07 % | 0.093 | -0.250 |
| Essential oils and resinoids | 0.07 % | 0.182 | -0.712 |
| Natural, cultured pearls | 0.04 % | 0.134 | -0.159 |
| Salt, sulphur, earths | 0.03 % | 0.130 | -0.133 |
| Iron and steel | 0.03 % | 0.130 | -0.072 |
| Ores, slag and ash | 0.02 % | 0.097 | 1.106 |
| Cotton | 0.01 % | 0.187 | 0.894 |

Notes: Table shows weighted average of U.S. imports as a share of total imports of the product in 2017 (column 1), $\Delta \log(1 + \tau_{i,us})$ (column 2), and average of $\Delta \log(1 + \phi_{i,us})$ for state and non-state importers (column 3) for a U.S. HS-6 product between 2017 and 2019 for each HS2 sector. Weights are expenditure share of a HS6 product in the HS2 sector.

Table 6: Mean and Dispersion of Δ Trade Barriers Across *All* Source Countries

| | Mean | | Standard Deviation | |
|---|---|---|---|---|
| | 2017-2019 | 2017-2020 | 2017-2019 | 2017-2020 |
| **Agriculture** | | | | |
| Δ Tariffs | 0.024 | 0.024 | 0.073 | 0.074 |
| Δ Non-Tariff Barriers | 0.108 | 0.053 | 0.494 | 0.425 |
| Δ Tariffs + Non-Tariff Barriers | 0.132 | 0.077 | 0.526 | 0.434 |
| **Manufacturing** | | | | |
| Δ Tariffs | -0.006 | -0.008 | 0.035 | 0.038 |
| Δ Non-Tariff Barriers | -0.060 | 0.023 | 0.381 | 0.549 |
| Δ Tariffs + Non-Tariff Barriers | -0.066 | 0.015 | 0.380 | 0.549 |

Notes: Table shows mean and standard deviation of $\Delta \ln(1+\tau_{if})$ (row 1), $\Delta \ln\left(1+\phi_{if}^{j}\right)$ (row 2), and $\Delta \ln(1+\tau_{if})\left(1+\phi_{if}^{j}\right)$ (row 3) across all source countries selling in the Chinese market, state and non-state importers, and HS-6 product between 2017-2019 (columns 1 and 3) and 2017-2020 (columns 2 and 4).

The third row in Table 6 shows the sum of the change in tariffs and the tariff equivalent of non-tariff trade barriers $\Delta \log(1+\tau_{if})\left(1+\phi_{if}^{j}\right)$. The increase in 2018 and 2019 in the dispersion across countries of trade barriers comes mostly from the increase in cross-country dispersion in non-tariff trade barriers. This result suggests that most of the welfare loss from trade barriers between 2017 and 2020 comes from the use of non-tariff trade barriers instead of tariffs (which we show in the next section).

Table 6 also shows the same data moments over the entire 2017-2020 period (third column) and for manufacturing imports (bottom panel). Here we highlight four facts. First, there was no change in tariffs in 2020 – the change in mean and dispersion of tariff rates across countries is the same between 2017-2020 as between 2017-2019. Second, in contrast, there was a reversal in the non-tariff barriers put in place between 2017 and 2019 in the first year of the phase 1 agreement in 2020. Still, it is clear that the reversal in 2020 was not complete – over the entire 2017-2020 period, the mean of non-tariff trade barriers increased by 0.05 log points, about half of the change in 2017-19. Third, the use of non-trade barriers for manufacturing was generally smaller compared to agriculture. Fourth, although non-tariff barriers in manufacturing did not increase on average between 2017 and 2019, the increase in the *dispersion* in non-tariff barriers in manufacturing was quite large over this period. Furthermore, the dispersion increased in 2020 relative to 2019. As we will see later, this will have important detrimental effects on welfare even if it has little effect on manufacturing imports.

### 4.3 Explaining Variation in Tariff and Non-Tariff Barriers

It is clear that a central objective of the Chinese authorities was to lower imports from the US. However, why did the authorities choose to lower imports by more for some products, and why did it choose to hike non-tariff barriers compared to tariffs for some products but not for others. In this section we provide suggestive evidence that the variation across products in the use of tariffs vs. non-tariff barriers can be partially explained as an outcome of a government facing dual objectives, which are to "punish" the U.S. by blocking imports from the U.S. and to protect profits of state owned firms.

Remember that tariffs apply equally to all firms whereas non-tariff barriers can apply to some firms and not to others. Further recall our evidence that non-tariff barriers primarily applied to non-state firms but not to state firms. All else equal, the government wants to lower imports from the US by raising barriers (both tariffs and non-tariff barriers) on US imports. However, since the government also cares about profits of state owned firms, it will raise tariffs by less for products imported from the US in which state owned firms have a larger market share. At the same time, since non-tariff barriers do not apply to state owners but benefits the government by lowering imports from the US, the hike in non-tariff barriers will tend to be *larger* for US products where the state share is larger.

Table 7: Regressions of Δ Tariffs and Non-Tariff Barriers on U.S. Imports on State Share

| | Δ Tariff | | Δ Non-Tariff Barriers | |
|---|---|---|---|---|
| State Share of HS-6 | −0.202 | −0.222 | 4.431 | 4.217 |
| Product from U.S. | (0.042) | (0.042) | (0.655) | (0.655) |
| Share of U.S. in Total | | 0.090 | | 0.974 |
| Imports of HS-6 Product | | (0.025) | | (0.382) |
| $R^2$ | 0.059 | 0.092 | 0.113 | 0.127 |

Notes: Table shows coefficients from regression at the HS6 product level of the change in tariffs $\Delta \log(1 + \tau_{i,us})$ (columns 1 and 2) or non-tariff barriers faced by non-state importers $\Delta \log(1 + \phi^n_{i,us})$ (columns 3 and 4) on a HS6 product imported from the US on the share of state-owners in total imports of the HS-6 product from the U.S. in 2017 (row 1) and the share of the U.S. in total imports of the HS-6 product from all countries in the same year (row 2). Number of observations = 353.

Table 7 provides strong support for this prediction. Each observation is weighted by the value of 2017 US imports. The first column shows the regression of the change in tariffs on a U.S. HS-6 product on the share of state owners in total imports from the U.S. of each HS-6 product prior to the trade war. The regression shows that tariffs on a U.S. product increases by less when state owners have a larger share of the imported product. This supports the logic that the government is less likely to raise tariffs when the tariffs will have a larger adverse effect on profits of state owners.

The third column shows the regression of the change in non-tariff trade barriers faced by *non-state* imported of the U.S. HS-6 product on the state share of total imports of the U.S. product. Here the coefficient is positive, suggesting that the government hikes up non-tariff barriers facing non-state firms by more in sectors where it has a larger stake.

Columns 2 and 4 in Table 7 introduce controls for the share of U.S. imports in total imports of the HS6 product. The evidence here suggests that the Chinese government indeed increased trade barriers by more for products where the U.S. has a larger share. However, it is still the case that even accounting for the importance of U.S. goods in the HS6 product, tariffs increase by less and non-tariff barriers facing non-state owners increase by more in HS-6 products where state owners have a larger share of imports from the U.S.

## 5 Welfare Cost of US-China Trade War

We now estimate the welfare cost to China of the trade barriers imposed during the course of the US-China trade war from 2017 to 2020. Specifically, welfare in our model is given by equation 6, where the US-China trade conflict affects welfare through the dispersion of tariffs across countries and HS-6 product and the mean and the dispersion of non-tariff barriers across countries, state vs. non-state importer, and across HS-6 product. The elasticity of welfare to these forcing variables are determined by the elasticities of demand and supply shown in Table 3, and the elasticity of substitution across firms.

Table 8 shows the resulting estimates of the welfare loss from higher tariffs and non-tariff barriers. Specifically, we start with the forcing variables in 2017 and change only the trade barriers to those prevailing in 2019 and 2020. The table then shows the changes in imports from the U.S. and Chinese welfare in the counterfactuals. The top panel shows the results of this exercise for agricultural HS-6 products. The first row shows the effects only of higher Chinese tariffs on U.S. agricultural products in 2019 and 2020, both relative to 2017. The first two columns show that higher tariffs lower imports of U.S. agricultural products by US$ 10.5 billion in 2019 and by US$ 11 billion in 2020. The next two columns shows that higher tariffs on U.S. products lowers Chinese welfare by 1.7 billion US$ in 2019 and by 1.9 billion US$ in 2020 (relative to the 2017 baseline).

The subsequent rows in Table 8 add the effect of changes in non-tariff barriers. The second row adds the effect of higher non-tariff barriers assuming that the non-tariff barriers facing state and non-state importers are the same and given by the weighted average of the change in non-tariff barriers for the HS-6 product. Adding *average* non-tariff barriers lowers imports of U.S. agricultural products by 21.0 billion US$ in 2019, or by an additional 10.5 billion US$ relative to the scenario where non-tariff barriers are held fixed. And adding average non-tariff barriers on U.S. exports lowers Chinese welfare by 11.0 billion US$ in 2019 compared to 2017, or an additional 9.3 billion US$. The partial reversal of the non-tariff trade barriers in 2020 increases Chinese welfare, but does not entirely undo the effect of higher non-tariff barriers imposed in 2018 and 2019. Chinese welfare in 2020 from consumption of imported agricultural products is still 6.8 billion US$ lower compared to where it was in 2017.

Table 8: Effect of US-China Trade War on Imports from U.S. and Chinese Welfare (billion US$)

| | Δ U.S. Import Value | | Δ Welfare | |
|---|---|---|---|---|
| | 2019 | 2020 | 2019 | 2020 |
| **Agriculture** | | | | |
| Tariffs Only | -10.5 | -11.0 | -1.7 | -1.9 |
| Tariffs + Non-Tariff Barriers | | | | |
| + Δ Average Non-Tariff Barriers | -21.0 | -17.5 | -11.0 | -6.8 |
| + Dispersion Δ NTBs between state/non-state | -21.5 | -17.7 | -12.7 | -7.3 |
| **Manufacturing** | | | | |
| Tariffs Only | -12.6 | -11.8 | -1.6 | -1.8 |
| Tariffs + Non-Tariff Barriers | | | | |
| + Δ Average Non-Tariff Barriers | -23.0 | -21.6 | -25.1 | -38.8 |
| + Dispersion Δ NTBs between state/non-state | -23.9 | -22.6 | -27.2 | -40.8 |

Notes: Table shows effect of changes in tariffs only (row 1), changes in tariffs and average non-tariff trade barriers (row 2), and changes in all trade barriers (tariffs and non-tariff trade barriers, including differences between state and non-state importers) (row 3) on imports of U.S. products and Chinese welfare (in billions of US$) in 2019 relative to 2017 (columns 1 and 3) and 2020 relative to 2017 (columns 2 and 4).

The third row adds in the effect of differential non-tariff barriers between state and non-state importers of American products. So the third row shows the effect of all the trade barriers, including tariffs and all the non-tariff barriers. Adding the differential application of non-tariff barriers between state and non-state importers has little effect on U.S. exports to China, but has a larger effect on welfare. Chinese welfare in 2019 is 12.7 billion US$ lower compared to 2017 when we also take the differential non-tariff trade barrier between state and non-state firms into account, compared to a decline of 11 billion US$ when we do not. Overall, non-tariff barriers account for 86% of the welfare loss from from higher trade barriers on agricultural imports in 2019.

The bottom panel in Table 8 shows the results of the same exercise for trade barriers on manufacturing exports from the US. Remember that trade barriers, both in form of tariffs and also in the form of non tariff barriers, increased by less for U.S. manufactured products compared to agricultural products.[18] However, the effects of trade barriers on imports and welfare are larger than in agriculture because U.S. manufacturing exports to China are much larger than agricultural exports: in 2017 the U.S. manufacturing exports to China totaled 100 billion US$ and U.S. agricultural exports totaled 31.9 billion US$. The total welfare loss from higher trade barriers in 2019 was 27.2 billion US$, and the bulk of the welfare loss (94.1%) comes from the use of non-tariff barriers as opposed to tariffs. In addition, in contrast to what we see for agricultural products, there is no evidence of a reversal in the welfare loss in 2020 in the first year of the purchase agreement. The

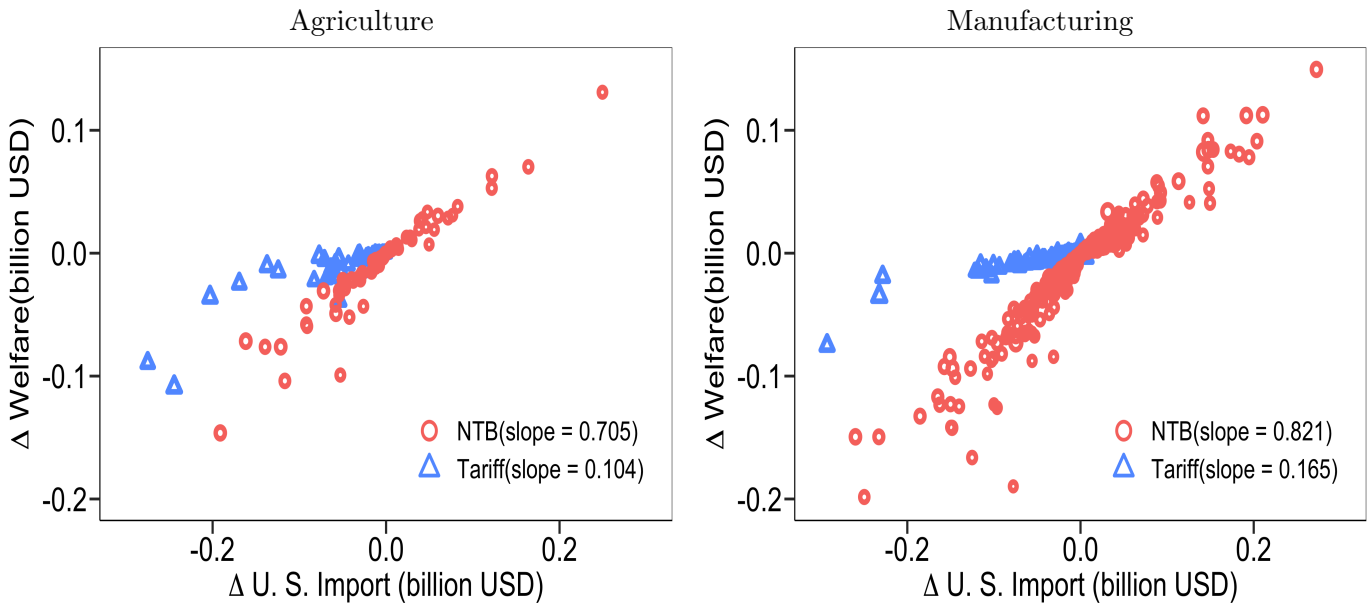
[18] See Table 1 for the increase in tariffs and Table 4 for the increase in non-tariff barriers.

welfare loss in 2020 from higher trade barriers was about the same as in 2019.

Adding up the effects of trade barriers for agricultural and manufacturing goods, our estimates suggest that Chinese welfare fell by 40 billion US$ in 2019 compared to 2017 due to the higher trade barriers imposed by China in 2018 and 2019. The bulk – about 92% – of this welfare cost was due to the use of non-tariff trade barriers instead of higher tariffs. In sum, non-tariff barriers account for about half of the reduction in imports of U.S. products but almost all of the loss in welfare suffered by the Chinese due to the trade war. Some of the higher non-trade barriers facing U.S. agricultural exports were removed in 2020, but not for U.S. manufactured products that account for the most U.S. exports to China. As a consequence, China's welfare loss in 2020 is still 48.11 billion US$ lower compared to 2017.

Figure 2 uses the variation across HS-6 products to illustrate that the use of non-tariff barriers as an instrument to lower imports from the U.S. were much more costly compared to tariffs. In this figure, we ask the following question: how much did the increase in tariffs and non-tariff barriers between 2017 and 2019 on each HS-6 product sold by the U.S. lower U.S. imports and Chinese welfare? The figure plots the change Chinese welfare (on the y-axis) against the change in imports from the U.S (on the x-axis) due to the change in tariffs and imputed non-tariff barriers on each HS-6 product, separately for agricultural products (left panel) and manufacturing products (right panel). The observations in red circle denote the effect of a change in non-tariff barriers on welfare and imports from the U.S., and the observations in blue triangle denote the same for the change in tariffs.

Figure 2: Welfare Elasticity of Welfare to US Import Value: Tariffs vs. Non-Tariff Barriers




Notes: Each observation is a HS-6 product. Figure plots change in Chinese welfare against change in U.S. imports caused by the actual change in tariffs (dots) and non-tariff barriers (triangles) in 2018-19 for each HS-6 product.

Figure 2 shows clearly that for every dollar reduction in imports from the U.S., non-tariff barriers are much more costly to Chinese consumers. The elasticity of welfare change to the change in imports due to non-tariff barriers is about five times larger than the elasticity of welfare with respect to imports due to tariff hikes. Of course, this is to be expected: compared to tariffs, non-tariff barriers are more costly because of there are no tariff revenues from non-tariff barriers and because of the misallocation of imports when non-tariff barriers apply to some firms and not to others. Therefore, to the extent that the goal of the Chinese government was to retaliate against U.S. tariffs on Chinese products by cutting imports from U.S., using non-tariff barriers is a much more costly policy instrument than using tariffs.

# 6 Robustness

In this section we conduct four sets of robustness checks. First, we provide suggestive evidence that what we infer as non-tariff trade barriers on American products in China are in fact unofficial trade barriers, and not something else. Second, we show results using alternative estimates of demand elasticities. Third, we show estimates of non-tariff barriers on agricultural imports from non-US countries in the Chinese market. Fourth, we show the welfare losses when we allow for substitution between domestic and imported products.

## 6.1 External Validity

There are obviously alternative explanations for the changes in U.S. imports that we infer as due to non-tariff barriers facing American products in China during the trade war. After all, the non-tariff barriers we try to measure are by design opaque. In this subsection, we try to provide external validation of our measures, but of course such evidence can only be suggestive.

First, it is possible that what we infer as non-tariff barriers on a U.S. product reflects changes in the quality of the particular U.S. product. To determine whether this is likely, we calculate U.S. exports to the rest of the world (excluding China) as a share of exports of the rest of the world to the rest of the world.[19] If what we infer as non-tariff barriers on U.S. products in China reflects quality or price changes of the U.S. product, we should also see this in a decline of U.S. exports to non-Chinese markets. Appendix Figure A1 shows the scatterplot of the change between 2017 and 2019 in exports of a U.S. product to the rest of the world (excluding China) as a share of exports of the rest of the world to the rest of the world (on the y-axis) vs. the change non-tariff barrier in the Chinese market of the same product sold by the U.S. (on the x-axis). There is no evidence that U.S. exports to the rest of the world (excluding China) fall by more for HS-6 products where U.S. exports of the same product fall significantly in the Chinese market. U.S. products where we infer a large increase in Chinese non-tariff barriers only see a decline in the Chinese market between 2017 and 2019, and nowhere else in the world.

We can also apply our procedure to infer non-tariff barriers in other contexts where non-tariff

[19] We calculate this number at the HS-6 product level from the UN's Comtrade data.

barriers are more transparent and can be measured directly. Here we use the measures of non-tariff barriers facing Mexican imports from countries other than Canada and the U.S. in Conconi et al. (2018) due to the "rules of origin" under the North American Free Trade Agreement (NAFTA). Specifically, Conconi et al. (2018) calculates non-tariff barriers on the imports of an intermediate good from non-NAFTA countries as follows. First, they construct an indicator variable equal to one if the import is subject to rules of origin under NAFTA. Then they measure non-tariff barrier on the import as the sum of the indicator variable across all the final products that use the specific intermediate good.

We can then compare Conconi et al. (2018)'s direct measure of non-tariff barriers in Mexico with an estimate of non-tariff barriers computed from Mexican data following the same procedure we used to infer non-trade barriers facing U.S. imports in China. That is, we infer non-tariff barriers on imports of a HS-6 product from non-NAFTA countries in Mexico as the residual of the import share of non-NAFTA countries relative to NAFTA countries.[20] A regression of our estimate of non-tariff barriers on Mexican imports from non-NAFTA countries on Conconi et al. (2018)'s preferred measure of non-tariff barriers on imports from non-NAFTA countries of the same HS-6 product yields a statistically significant coefficient of 0.057.[21]

Our third validity check is from news reports on China's use of non-tariff instruments in the trade war.[22] Figure 3 plots the number of such news articles each quarter, and shows the spike in such news reports in late 2018 and early 2019.[23] Also, remember that our estimates indicate that non-tariff barriers increased the most for American soybeans and cereals between 2017 and 2019 (by 1 and 1.5 log points, respectively: see Table 5). Consistent with this, we find twice as many news reports on the use of non-tariff barriers on U.S. soybeans and cereals compared to other U.S. agricultural products.

Finally, we remind the reader of the evidence presented earlier that the increase in non-tariff barriers between 2017-2019 primarily applied to non-state importers and were substantially larger for HS-6 products where the state share of importers was high. In addition, the increase in non-tariff barriers was partially reversed after 2019, after the Chinese government agreed to purchase agreements to stop the trade war. Although not impossible, it is difficult to believe that forces other than the Chinese government's use of unofficial mechanisms in the trade war could account for these patterns.

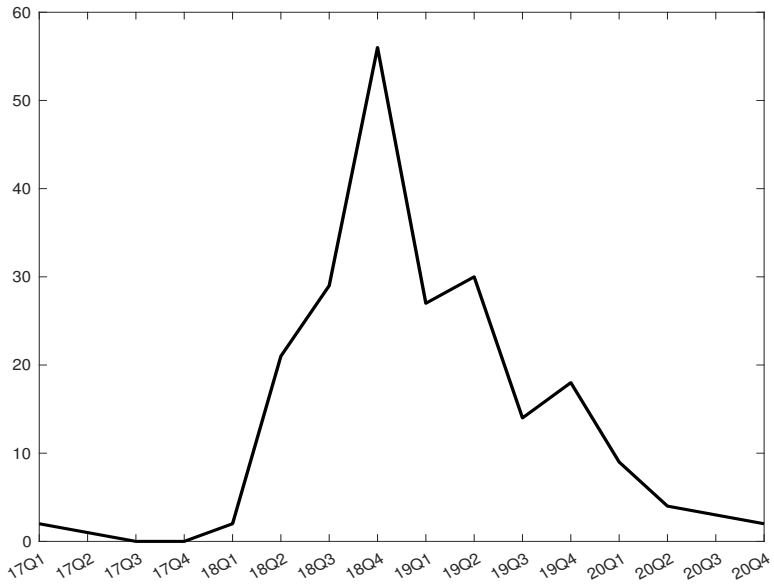
[20] We use Broda and Weinstein (2006)'s estimates of the elasticity of substitution $\epsilon$ at the HS-6 product-level.

[21] Conconi et al. (2018)'s preferred measure of non-tariff barriers is the variable "RoO$^3$" in their paper. See appendix Table A1 for the regression. Conconi et al. (2018) argue that the incentive of a final goods producer to comply with the rules of origin also depends on the extent to which the product is exported to a NAFTA country and the gap between the MFN and NAFTA tariff. Therefore, their two alternative measures of NTBs on imports from non-NAFTa countries are the interaction of "RoO$^3$" and exports to NAFTA countries and the gap between the MFN tariff rate and the NAFTA tariff rate. Appendix Table A1 shows that regressions of our estimate of NTBs on Conconi et al. (2018)'s two alternative measures of NTBs also yield positive (and statistically significant) coefficients.

[22] We use the within-site search function of Google to search for the key words "US, China, trade war, non-tariff" in 40 mainstream English language newspapers (the list of newspaper is in Appendix Table A2).

[23] Appendix Figure A2 shows a similar spike in late 2018 and early 2019 in the number of news articles on non-tariff barriers as a share of all articles on the US-China trade war, which are compiled by searching for the key words "US, China, trade war."

Figure 3: # Articles on Non-tariff Barriers on US Products in China




Note: Figure plots number of news articles on the use of non-tariff trade barriers on U.S. exports to China in 40 English newspaper websites in each quarter.

### 6.2 Elasticities

An identifying assumption behind our estimates of the demand elasticities that the change in tariffs across products and countries are orthogonal to changes in non-tariff barriers and supply shifts in the source country. We can not directly test this identifying assumption, but we can use the growth rate of import quantities of the HS-6 product from a given country as a proxy for trends in productivity growth in the foreign country. Appendix Figure A3 shows the scatter-plot between the growth rate of import quantities of a HS-6 product from a country between 2015-2017 (on the y-axis) and the change in tariffs between 2017-2019 (on the x-axis). The correlation is almost zero (correlation coefficient -0.05).

We can also impute non-tariff barriers using alternative estimates of the demand elasticity that do not rely on the variation in tariffs. Columns 3 and 4 in Table 9 shows non-tariff barriers calculated using the demand elasticities in Broda and Weinstein (2006). For ease of comparison, the first two columns replicate the baseline estimate of non-tariff barriers (using the elasticities estimated from the variation in tariffs) in Table 4. The table shows that the non-tariff barriers inferred from Broda and Weinstein (2006)'s estimates of the demand elasticities are similar to our baseline estimates. Specifically, the last two columns in Table 9 indicate that non-tariff barriers increased between 2017 and 2019 by more than tariffs, and largely affected non-state importers instead of state importers. In addition, the estimates based on Broda and Weinstein (2006)'s demand elasticities also show that non-tariff barriers declined in 2020 and the decline is primarily among non-state importers.

We can also check whether the non-tariff barriers we estimate from the Broda and Weinstein

Table 9: Δ Non-Tariff Barriers on U.S. Imports with Broda-Weinstein Elasticities

| | Baseline Elasticities | | Broda-Weinstein | |
|---|---|---|---|---|
| | Non-State | State | Non-State | State |
| **Agriculture** | | | | |
| Trade War (2017-19) | 0.725 | 0.023 | 0.582 | 0.041 |
| Trade War and Phase 1 (2017-2020) | 0.152 | 0.062 | 0.137 | 0.022 |
| **Manufacturing** | | | | |
| Trade War (2017-19) | -0.066 | 0.156 | -0.046 | 0.200 |
| Trade War and Phase 1 (2017-2020) | 0.131 | 0.342 | 0.184 | 0.336 |

Notes: Table shows the average change in non-tariff barriers for HS-6 products in agriculture (top panel) and manufacturing (bottom panel). Columns 1 and 2 replicate the change in non-tariff barriers (calculated from elasticities based on the variation in tariffs) in Table 4. Columns 3 and 4 shows the average change in non-tariff barriers calculated using the demand elasticities in Broda and Weinstein (2006).

(2006) demand elasticities are orthogonal to the change in tariffs. Appendix Figure A4 shows the scatter-plot of the change in non-tariff trade barriers for a given HS-6 product from the US using Broda-Weinstein estimates of $\epsilon$ (on the y-axis) vs. the change in tariffs for the same product from the US (on the x-axis). There is essentially zero correlation between these two variables (correlation coefficient 0.02).

Our estimates of non-tariff barriers depend on the demand elasticity across source countries $\epsilon$, and not on the elasticities of substitution across products $\sigma$ and firms $\eta$. However, the estimates of welfare in Table 10 do depend on these elasticities, as well as the change in trade barriers. To check for robustness, Appendix Table A3 shows the estimated effect of the trade war on imports from the U.S. and Chinese welfare when we assume the elasticity of substitution across products is 1 (instead of 1.47 and 1.25 for agriculture and manufacturing) and the elasticity of substitution between state and non-state importers $\eta$ is 5 (instead of 3).

### 6.3 Non-Tariff Barriers on Imports of Other Countries

Another identifying assumption behind our estimates of non-tariff trade barriers on imports from the U.S. is that the average change in non-tariff trade barriers on imports from other (non-U.S.) countries is zero. We now check this assumption by estimating the change in non-tariff trade barriers from the four largest exporters of agricultural products to China (in addition to the U.S.), which are Brazil, Canada, Thailand, and Australia. For each country, we assume that the weighted average of the change in non-tariff barriers facing non-state importers for the other countries (excluding the U.S. and the top four exporters to China) is zero. For example, we use equations 7 and 8 to estimate the non-tariff trade barriers on imports from Brazil assuming that the change in non-tariff trade barriers on imports of the same good from all the other countries (excluding the U.S. and the four largest exporters to China) is zero on average.

This calculation indicates that the increase in non-tariff barriers between 2017 and 2019 is only for American products in China. The average increase in non-tariff barriers for agricultural products is 0.069 for Brazil, 0.049 for Canada, 0.075 for Thailand, and 0.131 for Australia (all units are in log points). For comparison, the average increase in non-tariff barriers for American agricultural products in China is 0.601 log points (Table 4). The increase in non-tariff barriers on Australian products are consistent with the accounts of what happened after Australia passed a national security law in 2018. However, the increase in non-tariff barriers faced by imports from Australia over the 2017-2019 period is much smaller compared to the U.S.

### 6.4 Misallocation between Domestic and Imported Products

We have so far assumed that the cost of the U.S.-China trade war comes from the misallocation of expenditures between imported products. We now allow for the misallocation between imported and domestic products. That is, suppose that one of the source countries in the utility function in equation 1 is China. There are two empirical difficulties associated with including the effect on domestic products. First, there is no data on Chinese production at the HS-6 product level. The best that we can do is that the National Bureau of Statistics of China reports the quantity of domestic production of 23 agriculture products, which we match to HS-4 categories.[24] Second, we do not have price data for domestic products, which prevents us from estimating the domestic supply elasticity.[25] We thus bound the effect of the US-China trade war by considering two extremes, which are that the domestic supply elasticity is zero zero on one extreme and almost perfectly elastic supply curve at the other extreme.[26]

Table 10 reports the effect of the U.S.-China trade war, where we include the effect on domestic Chinese products assuming the elasticity of substitution between a Chinese product and a product made by another country is $\epsilon$ (as reported in Table 3). The top panel assumes that the supply elasticity of domestic products is zero. The reduction of imports from US in 2019 by non-tariff trade barriers is 22% less than in the benchmark model (see Table 8), while the welfare loss is larger. The reason is because there are two opposite forces at play. On the one hand, adding domestic production lowers the importance of US products in utility. On the other hand, the increase in trade barriers on U.S. products leads to higher prices for domestic products, which amplifies the welfare loss from barriers on U.S. imports. The bottom panel in Table 10 assumes the elasticity of domestic supply is very elastic.[27] Here, the large supply elasticity dampens the welfare loss of higher non-tariff barriers on U.S. imports by more than 40%. However, even under the unrealistic assumption that the elasticity of Chinese supply to the local market is almost perfectly elastic, the

[24] Appendix Table A4 shows the concordance between the 23 products and HS-4 categories.

[25] The estimate of non-tariff barriers on U.S. products in Table 4 only requires an estimate of the elasticity of substitution across products, and does not depend on the supply elasticity.

[26] We note that domestic production growth is not correlated with the change in tariff or non-tariff trade barriers (the correlation of domestic production growth with the change in tariff and non-tariff trade barriers between 2017-2019 is 0.17 and -0.03, respectively). There is also little dispersion in the growth rate of domestic production of the 23 agricultural products. These two facts suggest that the domestic supply elasticity is closer to zero than to infinity

[27] We assume the elasticity of domestic supply is the same as the estimated elasticity of supply of foreign countries ($\gamma$=42).

Table 10: Effect of US-China Trade War with Domestic Production (Agriculture Only)

| | Δ U.S. Import Value | | Δ Welfare | |
|---|---|---|---|---|
| | 2019 | 2020 | 2019 | 2020 |
| *Domestic supply elasticity* $\gamma = 0$ | | | | |
| Tariffs Only | -10.2 | -10.3 | -4.9 | -5.0 |
| Tariffs + Non-Tariff Barriers | | | | |
| + Δ Average Non-Tariff Barriers | -16.4 | -11.6 | -11.6 | -5.3 |
| + Dispersion Δ NTBs between state/non-state | -16.7 | -11.7 | -13.8 | -5.6 |
| *Domestic supply elasticity* $\gamma = 42$ | | | | |
| Tariffs Only | -10.3 | -10.4 | -1.4 | -1.5 |
| Tariffs + Non-Tariff Barriers | | | | |
| + Δ Average Non-Tariff Barriers | -16.5 | -11.6 | -6.1 | -2.2 |
| + Dispersion Δ NTBs between state/non-state | -16.7 | -11.7 | -7.5 | -2.4 |

Notes: Table shows effect of changes in trade costs in the model where utility depends on domestic and imported products. Row 1 shows the effect of changes in tariffs only, row 2 shows the effect of changes in tariffs and average non-tariff trade barriers, and row 3 shows the effect of changes in all trade barriers (tariffs and non-tariff trade barriers, including differences between state and non-state importers. Columns 1 and 3 shows effect on imports of U.S. products and Chinese welfare (in billions of US$) in 2019 relative to 2017. Columns 2 and 4 shows effect on imports from U.S. and Chinese welfare in 2020 relative to 2017. The top panel assumes the domestic supply elasticity is zero; bottom panel assumes a domestic supply elasticity of 42.

welfare losses caused by non-trade barriers remain much larger than those by tariffs.

# 7 Conclusion

We estimate the use of non-tariff trade barriers by China in its trade battle with the U.S. in 2018 and 2019 and in the first year of the purchase agreement in 2020. We do this by first estimating the elasticities of demand for U.S. products in China relative to products made by other countries, as well as the elasticity of supply. These estimates indicate that the supply curve is almost horizontal, which suggests that the entire incidence of higher Chinese trade barriers are entirely borne by Chinese consumers.

We then use the estimates of the demand elasticities to back out the changes in non-tariff barriers as the residual of changes in imports of U.S. products relative to imports from other countries of the same HS-6 product, after controlling for the effect of tariffs. These estimates suggest that non-tariff barriers for U.S. agricultural exports increased significantly in 2018 and 2019, by a tariff-equivalent of 60 percent. The increase in non-tariff barriers for U.S. manufacturing exports is smaller. And in 2020, some of the increase in non-tariff barriers on U.S. agricultural exports was reversed.

We use a simple model to estimate the effect of trade barriers, including tariffs and non-tariff

barriers, on Chinese welfare. We find that trade barriers imposed in 2018 and 2019 lowered Chinese welfare in 2019 by 40 billion US$, with 93% of the welfare loss coming from the use of non-tariff trade barriers.

Finally, the use of regulatory tools as a trade barrier is not unique to the U.S.-China trade dispute. For example, after Canadian authorities arrested Meng Wangzhou, the CFO of Huawei, Chinese authorities retaliated on Canadian exports not with higher tariffs, but with similar opaque regulatory procedures. Canadian canola oil was accused of being infected with pests. Imports of Canadian pork and soybeans were subject to long paperwork delays. A similar dynamic took place for Australian exports to China. After Australia passed a national security law and blocked Chinese companies from its 5G mobile networks, Australian exports of barley were hit with anti-dumping duties, import licenses on Australian beef, lobster, and copper were revoked, and directives were issued to stop buying Australian cotton and coal. It would be useful to extend the analysis we undertake in this paper to these, and other, cases.

## References


**Amiti, Mary, Sang Hoon Kong, and David Weinstein.** 2020. "The effect of the US-China trade war on US investment." National Bureau of Economic Research.

**Amiti, Mary, Stephen J Redding, and David E Weinstein.** 2019. "The Impact of the 2018 Tariffs on Prices and Welfare." Journal of Economic Perspectives, 33(4): 187–210.

**Benguria, Felipe, and Felipe Saffie.** 2021. "Beyond Tariffs: How did China's State–Owned Enterprises Shape the US–China Trade War?" Available at SSRN 3969215.

**Bown, Chad.** 2020. "Unappreciated Hazards of the Phase One Deal." Trade and Investment Policy Watch, Peterson Institute for International Economics.

**Brandt, Loren, Johannes Van Biesebroeck, Luhang Wang, and Yifan Zhang.** 2017. "WTO accession and performance of Chinese manufacturing firms." American Economic Review, 107(9): 2784–2820.

**Broda, Christian, and David E. Weinstein.** 2006. "Globalization and the Gains from Variety." The Quarterly Journal of Economics, 121(2): 541–585.

**Cavallo, Alberto, Gita Gopinath, Brent Neiman, and Jenny Tang.** 2021. "Tariff pass-through at the border and at the store: Evidence from us trade policy." American Economic Review: Insights, 3(1): 19–34.

**Chang, Pao-Li, Kefang Yao, and Fan Zheng.** 2020. "The response of the Chinese economy to the US-China Trade War: 2018-2019." SMU Economics and Statistics Working Paper Series, Paper No. 25–2020. 1–56.

**Chor, Davin, and Bingjing Li.** 2021. "Illuminating the Effects of the US-China Tariff War on China's Economy." , (29349).

**Conconi, Paola, Manuel García-Santana, Laura Puccio, and Roberto Venturini.** 2018. "From Final Goods to Inputs: The Protectionist Effect of Rules of Origin." American Economic Review, 108(8): 2335–65.

**Fajgelbaum, Pablo D, Pinelopi K Goldberg, Patrick J Kennedy, and Amit K Khandelwal.** 2019. "The Return to Protectionism." The Quarterly Journal of Economics, 135(1): 1–55.

**Flaaen, Aaron, Ali Hortaçsu, and Felix Tintelnot.** 2020. "The Production Relocation and Price Effects of US Trade Policy: The Case of Washing Machines." American Economic Review, 110(7): 2103–27.

**Flaaen, Aaron B, and Justin R Pierce.** 2019. "Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected US Manufacturing Sector." Board of Governors of the Federal Reserve System (US).

**Goswami, Sanjana.** 2020. "Employment Consequences of US Trade Wars." Working Paper.

**Handley, Kyle, Fariha Kamal, and Ryan Monarch.** 2020. "Rising import tariffs, falling export growth: when modern supply chains meet old-style protectionism." National Bureau of Economic Research.

**Khandelwal, Amit K, Peter K Schott, and Shang-Jin Wei.** 2013. "Trade liberalization and embedded institutional reform: evidence from Chinese exporters." American Economic Review, 103(6): 2169–95.

**Liu, Nan.** 2020. "Trade war from the Chinese trenches." Working Paper.

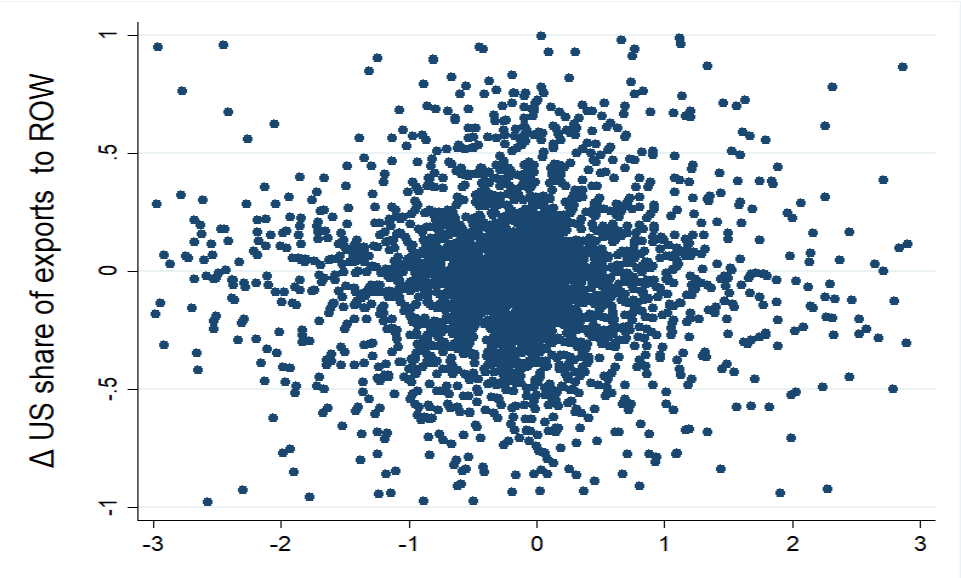
**Ma, Hong, Jingxin Ning, and Mingzhi (Jimmy) Xu.** 2021. "An eye for an eye? The trade and price effects of China's retaliatory tariffs on U.S. exports." China Economic Review, 69: 101685.

**Waugh, Michael E.** 2019. "The Consumption Response to Trade Shocks: Evidence from the US-China Trade War." National Bureau of Economic Research Working Paper 26353.

# Online Appendix

(Not for publication)

Figure A1: Δ share of U.S. exports to rest of world (excluding China) vs. Δ non-tariff barriers on U.S. exports to China, 2017-2019



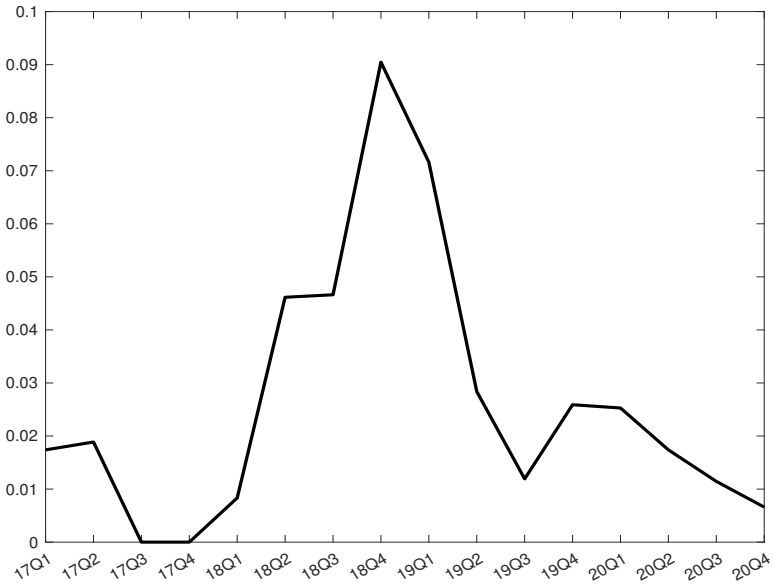

Notes: Each observation is a HS-6 product. Figure presents scatter-plot of the change in log U.S. exports to the rest of the world as a share of exports of the rest of the world to the rest of the world (y-axis) against the change in non-tariff barriers on U.S. exports to China, both calculated between 2017 and 2019. Rest of the world excludes China. The change of U.S. exports to the rest of the world is calculated from the U.N.'s Comtrade database. See text for details on the calculation of non-tariff barriers on U.S. exports to China.

Table A1: Regression of our Estimate of NTB on Imports from Non-NAFTA Countries in Mexico on Direct Measures of NTB from Conconi et al. (2018)

| | Dependent Variable: NTB on non-NAFTA countries in Mexico | | |
|---|---|---|---|
| #Rules of Origin | 0.057 | 0.027 | 0.047 |
| | (0.023) | (0.025) | (0.027) |
| Exports to NAFTA | | 0.097 | |
| | | (.025) | |
| #Rules of Origin | | 0.037 | |
| × Exports to NAFTA | | (0.015) | |
| Tariff MFN - NAFTA | | | -0.162 |
| | | | (0.088) |
| #Rules of Origin | | | 0.088 |
| × Tariff MFN - NAFTA | | | (0.054) |

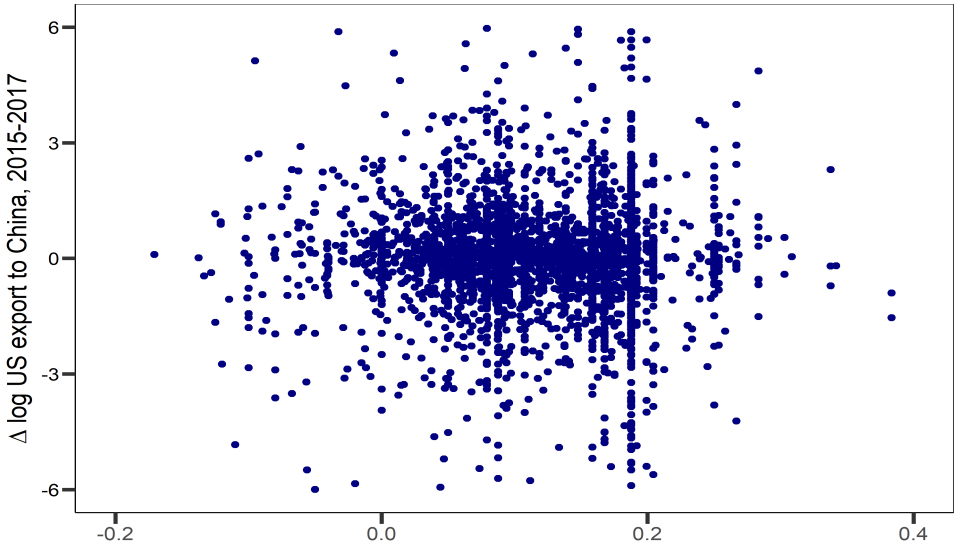
Notes: Unit of observation is a HS-6 product (N=1,613). The dependent variable is our estimate of non-trade barriers on Mexican imports from non-NAFTA countries, calculated following the same procedure used to estimate non-trade barriers on Chinese imports from the U.S., where we use the HS-6 product-level estimates of $\epsilon$ in Broda and Weinstein (2006). The independent variables are from Conconi et al. (2018), where "#Rules of Origin" is the number of final goods with rules of origin requirements on the given intermediate inputs at HS-6 level, "Exports to NAFTA" is the log of Mexican exports to Canada and the U.S., and "Tariff MFN - NAFTA" is the difference between the MFN tariff and the NAFTA tariff. We use demeanded "Exports to NAFTA" and "Tariff MFN - NAFTA" interacted with "#Rules of Origin."

Figure A2: Articles on Non-tariff Barriers/All Articles on US-China Trade War



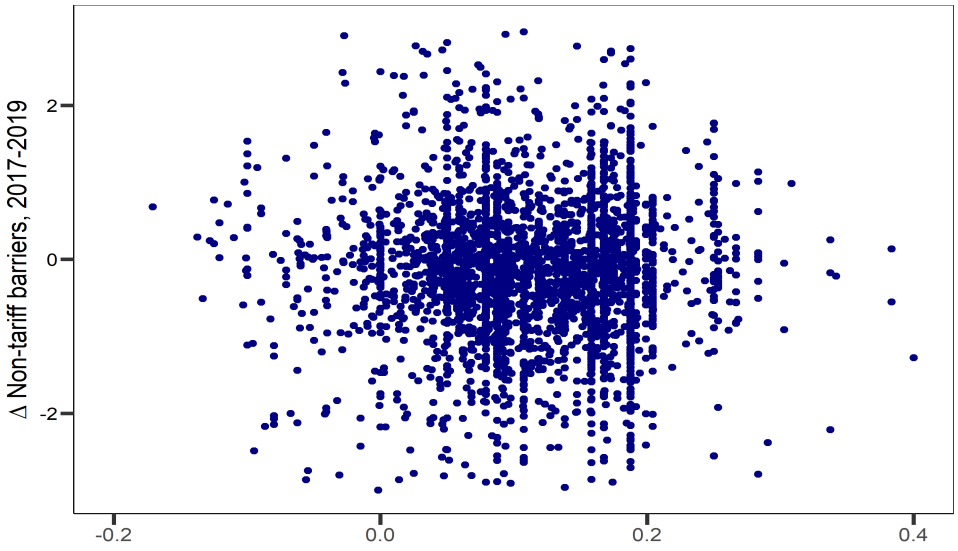

Notes: Figure plots total number of articles mentioning non-tariff barriers in the US-China trade war found in 40 English newspaper websites as a share of all articles on the US-China trade war in each quarter.

Figure A3: $\Delta$ share of imports from U.S., 2015-2017 vs. $\Delta$ tariff on U.S. imports, 2017-2019




Notes: Each observation is a HS-6 product. Figure presents scatter-plot of the change in log U.S. exports to China (relative to exports of other countries to China) between 2015 and 2017 (y-axis) against the change in tariff on U.S. exports to China between 2017 and 2019. See text for details on how we compile the tariff data and trade data.

Figure A4: Δ non-tariff on U.S. exports to China vs. Δ tariff on U.S. exports to China, 2017-2019




Notes: Each observation is a HS-6 product. Figure presents scatter-plot of the change in non-tariff barriers of U.S. exports to China calculated from the Broda and Weinstein (2006) demand elasticities (y-axis) against the change in tariff on U.S. exports to China, both calculated between 2017 and 2019. See text for details on the calculation of non-tariff barriers on U.S. exports to China.

Table A2: Number of News Articles on Non-Tariff Barriers and Trade War 2017-2020

| Website | # Non-Tariff Articles | # Trade War Articles |
|---|---|---|
| abcnews.go.com | 2 | 132 |
| apnews.com | 0 | 159 |
| bbc.com | 13 | 218 |
| bloomberg.com | 5 | 217 |
| cnbc.com | 10 | 214 |
| cnn.com | 6 | 215 |
| dailymail.co.uk | 1 | 213 |
| economist.com | 1 | 238 |
| express.co.uk | 0 | 227 |
| finance.yahoo.com | 4 | 216 |
| forbes.com | 5 | 229 |
| fortune.com | 0 | 231 |
| foxnews.com | 2 | 45 |
| ft.com | 5 | 194 |
| independent.co.uk | 0 | 138 |
| latimes.com | 4 | 229 |
| mirror.co.uk | 0 | 18 |
| msnbc.com | 0 | 19 |
| nbcnews.com | 1 | 222 |
| newsweek.com | 1 | 212 |
| nikkei.com | 6 | 215 |
| npr.org | 0 | 219 |
| nytimes.com | 8 | 237 |
| politico.com | 12 | 238 |
| reuters.com | 11 | 220 |
| scmp.com | 97 | 231 |
| slate.com | 0 | 24 |
| standard.co.uk | 0 | 6 |
| telegraph.co.uk | 1 | 65 |
| theatlantic.com | 0 | 120 |
| theguardian.com | 8 | 228 |
| thehill.com | 2 | 120 |
| theintercept.com | 0 | 19 |
| thestreet.com | 2 | 90 |
| thetimes.co.uk | 2 | 94 |
| time.com | 2 | 172 |
| usnews.com | 0 | 91 |
| vox.com | 2 | 188 |
| washingtonpost.com | 3 | 237 |
| wsj.com | 2 | 229 |
| Total | 218 | 6629 |

Table A3: Effect of US-China Trade War with Alternative Elasticities (billion US$)

| | Δ U.S. Import Value | | Δ Welfare | |
|---|---|---|---|---|
| | 2019 | 2020 | 2019 | 2020 |
| *Elasticity of substitution across products* $\sigma = 1$ | | | | |
| **Agriculture** | | | | |
| Tariffs Only | -8.87 | -10.00 | -1.92 | -2.18 |
| Tariffs + Non-Tariff Barriers | | | | |
| + Δ Average Non-Tariff Barriers | -14.41 | -14.07 | -7.74 | -5.99 |
| + Dispersion Δ NTBs between state/non-state | -15.13 | -14.32 | -9.63 | -6.47 |
| **Manufacturing** | | | | |
| Tariffs Only | -12.63 | -11.52 | -1.93 | -2.06 |
| Tariffs + Non-Tariff Barriers | | | | |
| + Δ Average Non-Tariff Barriers | -25.36 | -14.97 | -29.30 | -27.63 |
| + Dispersion Δ NTBs between state/non-state | -26.30 | -16.02 | -31.41 | -29.72 |
| *Elasticity of substitution across firms* $\eta = 5$ | | | | |
| **Agriculture** | | | | |
| Tariffs Only | -10.52 | -11.01 | -1.70 | -1.89 |
| Tariffs + Non-Tariff Barriers | | | | |
| + Δ Average Non-Tariff Barriers | -21.00 | -17.46 | -10.89 | -6.76 |
| + Dispersion Δ NTBs between state/non-state | -21.68 | -17.71 | -12.69 | -7.13 |
| **Manufacturing** | | | | |
| Tariffs Only | -12.81 | -11.95 | -1.63 | -1.82 |
| Tariffs + Non-Tariff Barriers | | | | |
| + Δ Average Non-Tariff Barriers | -23.48 | -22.49 | -25.36 | -37.26 |
| + Dispersion Δ NTBs between state/non-state | -24.33 | -23.23 | -26.77 | -38.51 |

Notes: Table shows the effect of changes in tariffs only (row 1), changes in tariffs and average quantitative restrictions (row 2), and changes in all trade barriers (tariffs and quantitative restrictions, including differences between state and non-state importers) (row 3) on imports of U.S. products and Chinese welfare (in billions of US$) in 2019 and 2020 relative to 2017. The results are scaled by the ratio of annual imports in 2017 to total imports between January to July in 2017, which is 1.75 and 1.85 for agriculture and manufacturing goods, respectively. Top panel assumes the elasticity of demand across products $\sigma$ is 1. Bottom panel assumes the elasticity of demand across firms $\eta$ is 5.

Table A4: Concordance Between Domestic Products and 4-digit HS Code

| Domestic Product | 4-digit HS Code | Domestic Product | 4-digit HS Code |
|---|---|---|---|
| Beef | 0201 | Refined Edible | 1507 |
| | 0202 | Vegetable Oil | 1508 |
| Pork | 0203 | | 1509 |
| Mutton | 0204 | | 1510 |
| Seafood | 0301 | | 1511 |
| | 0302 | | 1512 |
| | 0303 | | 1513 |
| | 0304 | | 1514 |
| | 0305 | | 1515 |
| | 0306 | Refined Sugar | 1701 |
| | 0307 | | 1702 |
| | 0308 | Beer | 2203 |
| | 0309 | Tobacco | 2401 |
| Milk | 0402 | Silkworm Cocoons | 5001 |
| | 0403 | | 5002 |
| | 0404 | | 5003 |
| | 0405 | | 5004 |
| | 0406 | | 5005 |
| Poultry Eggs | 0407 | | 5006 |
| | 0408 | | 5007 |
| Honey | 0409 | Wool | 5101 |
| Tubers | 0701 | | 5105 |
| | 0714 | | 5106 |
| | 1105 | | 5107 |
| Fruits | 0803 | | 5109 |
| | 0804 | | 5111 |
| | 0805 | | 5112 |
| | 0806 | Cotton | 5201 |
| | 0807 | | 5202 |
| | 0808 | | 5203 |
| | 0809 | | 5204 |
| | 0810 | | 5205 |
| Tea | 0902 | | 5206 |
| Cereals | 1002 | | 5207 |
| | 1003 | | 5208 |
| | 1004 | | 5209 |
| | 1007 | | 5210 |
| | 1008 | | 5211 |
| | 1102 | | 5212 |
| | 1103 | Fiber Crops | 5301 |
| | 1104 | | 5302 |
| Beans | 1201 | | 5303 |
| Oil-bearing Crops | 1203 | | 5305 |
| | 1204 | | 5306 |
| | 1206 | | 5307 |
| | 1207 | | 5308 |
| | 1208 | | 5309 |
| Sugarcane | 1212 | | 5310 |
| | | | 5311 |