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The Real Winners From Trump's Tariffs Are China's Neighbors

Preliminary evidence suggests that extra U.S. tariffs on Chinese goods are a cost to both countries

A clothing factory in Vietnam. U.S. imports from the country grew 34% on the year in March. **PHOTO:** SEONGJOON CHO/BLOOMBERG NEWS

By Nathaniel Taplin

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Who really pays the cost of President Trump's new tariffs on China?

Ever since Mr. Trump's surprise announcement this month that the U.S. would raise levies on $200 billion of Chinese goods—scuttling immediate hopes of a trade deal—the president's surrogates and his political opponents have been promoting dueling narratives. U.S. importers and consumers will foot the bill. Or China will, by charging lower prices.

A new report from New York Federal Reserve economists, together with U.S. import data, suggests a preliminary verdict: Both sides will pay. China won't export as much, while U.S.

buyers will face higher prices. The real winners are China's competitors in Asia: South Korea, Taiwan and Southeast Asia.

The Federal Reserve economists, based on a previous study that looked at the impact of the 2018 tariffs, find that the new, higher tariff rate of 25% will cost each U.S. household about $831 a year. Part of that comes from the tariff levy itself, which importers can attempt to pass on to consumers. But the bigger impact comes from higher average prices overall as buyers ditch Chinese goods in favor of pricier foreign suppliers, which are nonetheless cheaper than Chinese goods would be after a stiff 25% tax. The authors note that in principle domestic suppliers could fill some of the supply gap, but also that other developing countries tend to pick up the slack when one is targeted.

There is some evidence of that happening, even with the previous, smaller tariffs. Since the third round of U.S. tariffs on China went into effect in late September, U.S. imports from China have faltered. An 8% growth rate in October turned to an 18% decline on the year in March. Yet import growth from Taiwan has risen from 12% to 21% over the same period. Imports from Vietnam grew 34% in March, up from a 15% rate in October. And imports from South Korea also surged in the first quarter: They were up 18% on the year, against just 9% in the fourth quarter of 2018.

Some of those shifts might represent manufacturers in China rerouting goods through neighboring countries. Chinese export growth to Southeast Asia and Taiwan accelerated in the first quarter of 2019, even as its overall export growth slowed. Regardless, the result is probably more expensive goods in the U.S. and lower employment in China, as Chinese companies shift elements of supply chains across borders or lose market share to pricier but tariff-free Asian competitors.

Many U.S. policy makers would argue that some pain for U.S. households is worthwhile if it achieves broader strategic goals. In the meantime, however, the big winners from the Sino-U.S. trade conflict are still across the Pacific.

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