



Exclusions for Sale? Tariff Exclusions in the US-China Trade War, Paris Trade Seminar - March 18, 2025

By Dan Xie (PSE)

The Paris Trade Seminar held on March 18, 2025 at the Paris School of Economics invited Davin Chor from Dartmouth College to give a presentation on recent research titled "Exclusions for Sale? Tariff Exclusions in the US-China Trade War", joint with Matthew Grant from Dartmouth College and Bingjing Li from the University of Hong Kong. The authors study the exclusion process that accompanied the Section 301 tariffs imposed by the United States on Chinese imports between July 2018 and September 2019. These tariffs, which covered over two-thirds of US imports from China and increased average duties by 20 percentage points, were complemented by an exclusion mechanism that ultimately exempted \$53 billion (15.8%) of targeted imports and foregone \$12.6 billion in annual tariff revenue. The authors aim to understand how firms successfully obtained tariff exclusions through lobbying and information provision, while demonstrating that this exclusion system, though seemingly flexible, paradoxically worsened overall welfare outcomes by incentivizing higher initial tariff rates.

This study investigates the dual aspects of the Section 301 tariff exclusion process imposed by the United States on Chinese imports between 2018-2019. First, the research examines the motivations and mechanisms behind how firms successfully obtained exemptions through lobbying and information provision. Second, the analysis explores the broader consequences of this policy design, questioning whether the exclusion system actually improved welfare outcomes or instead created perverse incentives that influenced both initial tariff rates and subsequent economic impacts.

The Section 301 Tariffs and Exclusion Process

Between July 2018 and September 2019, the United States under the Trump administration enacted unilateral tariffs against a broad range of its imports from China, invoking Section 301 of the Trade Act of 1974. The additional tariffs were extensive: They covered over two-thirds of the US imports from China, and touched over 90% of HS 6-digit product codes. By the end of 2019, the average tariff increase on these imports was around 20 percentage points. With the announcement of these tariffs, the US government concurrently introduced an exclusions process, allowing importers to petition to exempt

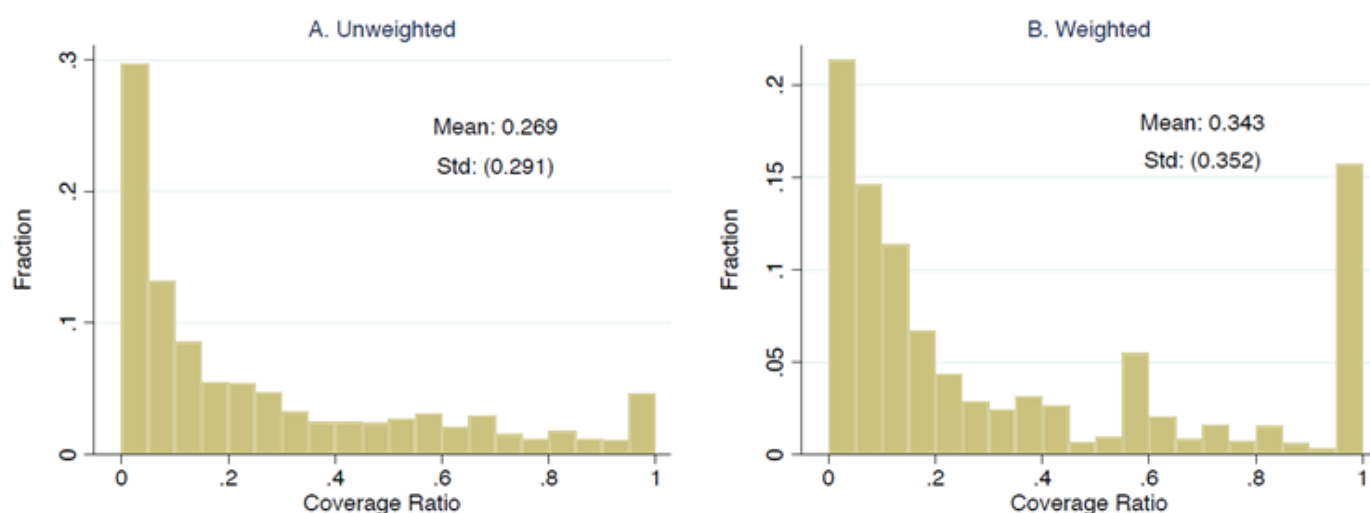
specific goods from China from the additional duties. Despite being the focus of substantial government and lobbying efforts, these exclusions have been largely treated as a sidenote in evaluations of the impact of the US-China tariff war (e.g., Amiti *et al.*, 2019; Fajgelbaum *et al.*, 2020, 2024; Chor and Li, 2024; Flaaen and Pierce, 2024). Firms and their representatives submitted 52,746 exclusion requests, filed by 4,771 entities, stretching the administrative capacity of the Office of the US Trade Representative. In all, 426 Federal Register notices related to exclusions were issued.

The Extent of Tariff Exclusions

To quantify how extensive these exclusions were, the authors analyze detailed US customs data at the monthly frequency, examining changes in duties paid around the implementation date of the Section 301 tariffs for each Harmonized Tariff Schedule (HTS) 10-digit product code. As shown in **Figure 1**, the raw distribution of exclusion shares across the 10-digit HTS codes that received some tariff exclusions is bimodal, with a cluster having near-zero exclusion shares and a second cluster that is close to fully exempt.

Aggregating over all codes, the authors calculate that \$52.95 billion of US imports from China were ultimately covered by exclusions, constituting 15.8% of the imports originally targeted for Section 301 tariff actions. This amounts to around \$12.6 billion of potential tariff revenue foregone annually (based on 2017 import values), which is comparable to total US tariff revenues prior to the trade war (\$33.6 billion in 2017, across all origin countries).

Figure 1: Distribution of the Exclusion Share across Products



Notes: Panel A displays the distribution of the exclusion shares, for those 10-digit HTS product codes with at least one successful exclusion request. In Panel B, the observations are weighted by their 2017 import value from China.

The Exclusion Process and Determinants of Success

Why did the US government adopt this tariff system with exclusions? To address this question, the authors assembled a comprehensive dataset covering the universe of exclusion applications, which includes details on: the applicant firm; the requested good; process variables; and the eventual outcome (whether the request was granted, and if unsuccessful, the reason for denial). The USTR stipulated that the system was intended for affected US entities to seek tariff relief for specific goods that met a list of eligibility criteria. Of these, two

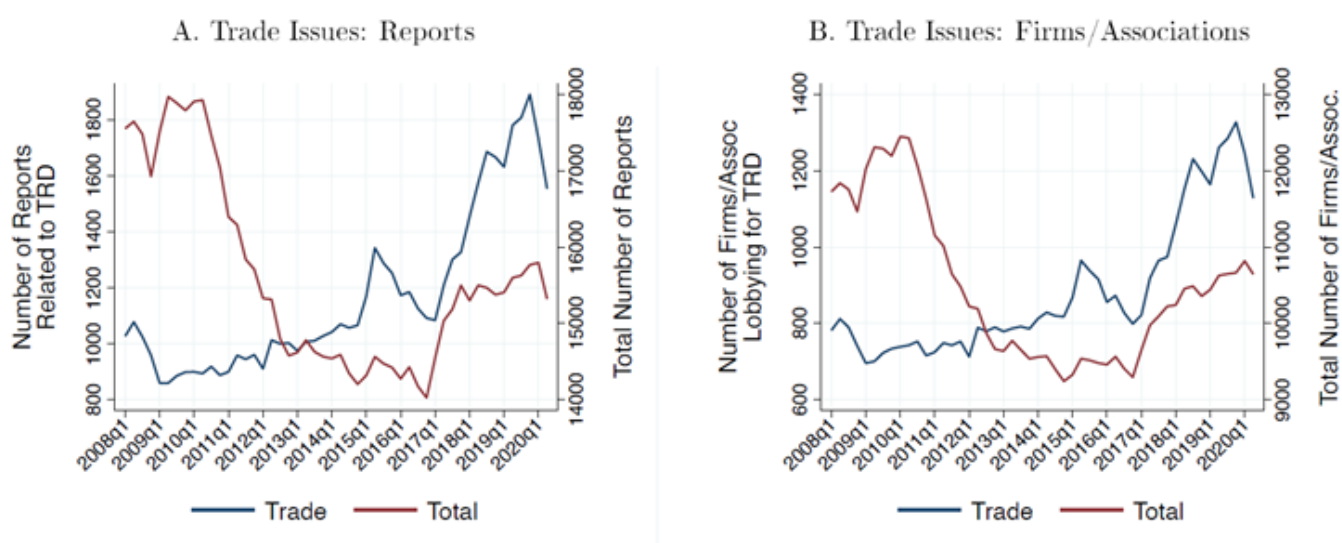
proved most relevant in practice: whether the good was available only from China, and whether the additional duties would result in severe economic harm to US interests.

The research reveals that application features that plausibly speak to a firm's effectiveness in conveying information are positively correlated with the likelihood of approval, even when controlling for a host of other firm and product characteristics. While the overall success rate of exclusion requests was

low (just 12.9%), submission by a representative, receiving a positive comment letter, and engaging in lobbying was associated with a 3.4%-9.1% higher likelihood of approval. For example, starting in early 2018, the number of lobbying reports related to

trade issues rose steadily, as illustrated in Panel A of **Figure 2**. Panel B demonstrates that more firms and associations lobbied for trade-related issues during the trade war period.

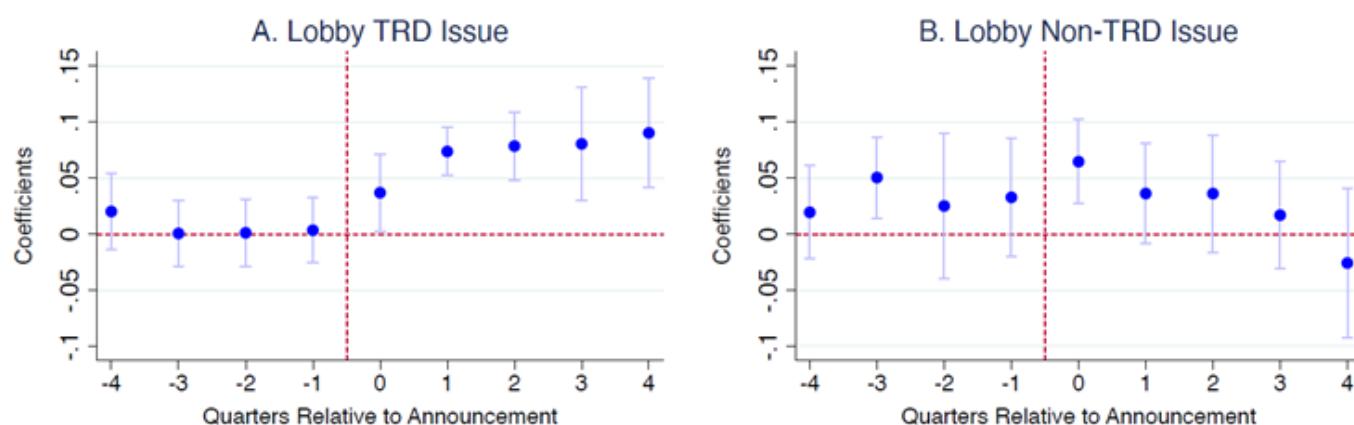
Figure 2: Trends of Lobbying Activities Over Time



To assess whether this timing of lobbying activities is associated with success in firm applications, Panel A of **Figure 3** shows that the effect of lobbying reveals itself only after the tariff announcement.

As a placebo test, Panel B demonstrates that lobbying activities related to non-trade issues yield no discernible differences in effects before and after the initiation of the exclusions process.

Figure 3: Lobbying Activities and Tariff Exclusion: Timing of the Lobbying Effects



Notes: Panel A plots the estimated coefficients for lobbies with trade-related issues. Panel B plots the corresponding coefficients for lobbies with non-trade issues. The X-axis indicates the quarters relative to the date of the announcement of tariff actions. Standard errors are clustered at the 2-digit HS level. Error bars show 90% confidence intervals.

Further evidence indicates that the USTR took significantly more time to determine the outcome of applications with these features, suggesting that they allowed firms to call more attention to an application and perhaps even enhance the

informational content of their submissions. When unsuccessful, applications with these features were also less likely to be denied for failing to provide sufficient information to show availability only from China or to demonstrate severe economic harm.

Modeling the Impact of Tariffs with Exclusions

The final section of the paper models and quantifies the impact of this trade policy design of tariffs with exclusions. The authors develop a model with three "countries": the US, China, and the rest of the world, each producing a different variety of goods competitively under a constant elasticity of supply following the Armington (1969) assumption. In this framework, tariffs serve to redistribute surplus from consumers (i.e., US importers) to domestic producers and manipulate the terms-of-trade. The US chooses to impose the Section 301 tariffs on China due to a political shock (i.e., Trump's election in 2016) which leads the US government to place a lower weight on the surplus (producer profits) accruing to China.

To these building blocks, the authors add imperfect

information on the part of the government. US users have different consumption shares over varieties made in China across the many goods within each product code. However, for goods where the relative consumption of Chinese varieties is high, tariffs are less efficient at redistributing surplus to US producers and reducing profits accruing to China. The tariff exclusions process thus permits the government to elicit information about precisely which goods it most wishes to exempt. The model is calibrated code-by-code with key parameters including the trade elasticities, political weight parameters, and dispersion parameters by matching key data moments at the code level: observed aggregate import shares, the share of excluded goods, and the levels tariff rates.

Welfare Analysis and Policy Implications

With the calibrated model in hand, the authors evaluate welfare under the current policy regime of "tariffs with exclusions" and compare it against the counterfactual policy scenario of "tariffs without exclusions" (i.e., uniform tariffs at the code level). The simulations reveal that the average level of the initial tariff is close to a full percentage point higher (21.5% versus 20.7%) under the system that allows for exclusions, confirming the intuition that the government would endogenously choose to set a higher initial tariff rate when it anticipates granting exclusions.

While this difference in tariff rates may appear small, the resulting additional distortion in welfare terms is quite sizeable compared to the optimal tariff of 9.9% that would be set by a government pursuing pure terms-of-trade manipulation without political

weights. The additional welfare cost of a policy setup of tariffs with exclusions amounts to \$14.4 billion. In contrast, a uniform tariff policy without scope for exclusions yields a welfare cost relative to MFN of \$11.9 billion. Thus, the policy of "tariffs with exclusions" results in a 21% greater social welfare loss (relative to the Most Favoured Nation world) compared to the counterfactual policy regime of "tariffs without exclusions." The results from this "protection for sale" model reveals that the government's inclination to set a higher initial tariff rate represents a hidden welfare cost of this system of "tariffs with exclusions." This finding echoes an earlier theoretical result from Rodrik (1986), that a government with access to production subsidies can, in equilibrium, deliver a worse welfare outcome than a government with only access to import tariffs.

Conclusion

This paper documents a not so well-known yet non-trivial fact that during the US-China Trade War, American companies could seek exclusions from the Section 301 tariffs, creating a dual system of tariff enforcement. The exclusion process, while ostensibly designed to protect American interests from severe economic harm, created a perverse incentive structure where the government set higher initial tariff rates in anticipation of granting exemptions. The study's empirical analysis reveals

that firms with greater capacity for lobbying and effective information provision consistently secured exclusions at higher rates, suggesting an uneven playing field in the application process. Ultimately, this "tariffs with exclusions" approach resulted in significant welfare losses compared to a uniform tariff system, highlighting how policy design can create perverse incentives that undermine stated economic objectives.

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Dan Xie is a postdoctoral fellow funded by the Globalization Chair. As a trade economist, she is working on the impact of trade and environmental policies on manufacturing pollution at the firm level, with a particular focus on China. Her recent work also covers trade and labor market power, port development and cross-border investment.