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Trump's tariffs will cut off some China trade, but businesses don't know how much

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The Trump administration has adopted an aggressive tariff policy against China and other countries for a clear purpose: to force the other countries to change their policies by making their U.S. exports so expensive they have no customers. Yet there's no way to estimate how effective Trump's broad-based tariffs will be in doing that, according to economists and business groups.

The point at which a tariff makes a product so expensive that a buyer decides to purchase it from a different source or forgo it altogether rather than pay the levy varies wildly from product to product. So much so, there is no general rule translating the rate of a tariff to the decline in imports. Individual companies do calculate the trade-offs for products they import, but the information is a considered a trade secret and so is rarely released.

Nor do companies get together to compare notes on the impact that Trump's tariffs will have on trade flows. “There’s no group thinking on that in part because U.S. antitrust laws make it hard to do that because it goes into forward-thinking business strategy,” said a source for one major trade association, who requested anonymity to discuss business it has before the administration.

Accordingly, economists cannot provide estimates when and how tariffs actually affect overall imports, because the effects are so heterogeneous. And there is no good way of knowing what the effect will be of the 10 percent tariffs Trump placed on Chinese imports that totaled $200 billion at last count.

“It just differs depending on the product. There is no set rule,” said Claude Barfield, an economist with the conservative American Enterprise Institute. “It boils down to what are the alternatives for a country to buy a finished product or a component of a part.”

Simon Lester, an economist with the libertarian Cato Institute, agreed. A 10 percent tariff probably won’t hurt sales too much, and 100 percent will likely stop them altogether, he explained. Finding the tipping point in between is hard.

“It’s going to vary a lot by product and by the margins for the product. In the case of, say, a Mercedes, well, its purchasers have a lot of money and they want a Mercedes, so a $1,000 difference may not matter a lot,” Lester said.

The broad nature of Trump's tariffs mean that they cannot readily be compared to ones imposed by previous administrations, which were narrowly-tailored, said a top trade association official. Trump has placed tariffs on $250 billion worth of Chinese goods overall, accounting for about half of all imports — and said he has plans to cover the rest.

"The tariffs on tires under Obama and on steel under Bush 43 serve as examples for what we've historically seen when a relatively targeted and smaller set of tariffs has been imposed," said the official. "The recent tariffs on China are different, though, because there might not be immediate alternative sources for some importers."

The other problem is that the effects of tariffs are often phased in incrementally. The $200 billion in tariffs that the Trump administration placed on Chinese products in September starts at 10 percent, but rises to 25 percent next year.

"You'd really have to go and look by sector and by product," Barfield said.

One often-cited case of tariffs affecting a product's sales is the Ford Focus Active. On Labor Day weekend, the manufacturer said it was scrapping plans to import it from China to America, saying a 25 percent the administration placed on $50 billion in goods imported from China — with additional duties threatened — made it uneconomical.

But even that case doesn't necessarily say much about how tariffs impact that particular sector, said Ivan Drury, senior manager of industry analysis at the automotive website Edmunds. "It is one of the only examples" where a tariff was known to cause a company to drop a product line because it couldn't sell, he notes.

Numerous foreign auto companies have manufacturing in the U.S., so tariffs won't necessarily affect the ability of companies like BMW or Nissan to sell in the U.S. In that situation, too, though, it depends on what the plants produce. In some cases, manufacturers produce the same line of cars in different factories in different countries, so they could simply shift production from one to another. But if they don't, then they're stuck.

"It is not an option" to shift a product line to the U.S, Drury notes. "You cannot retool a plant in one year," he said. "Even if you had a plant producing a vehicle that shared a common line you have to have so much in common that you'd almost already be producing it here."