Importers are Exporters: Tariffs Would Hurt Our Most Competitive Firms

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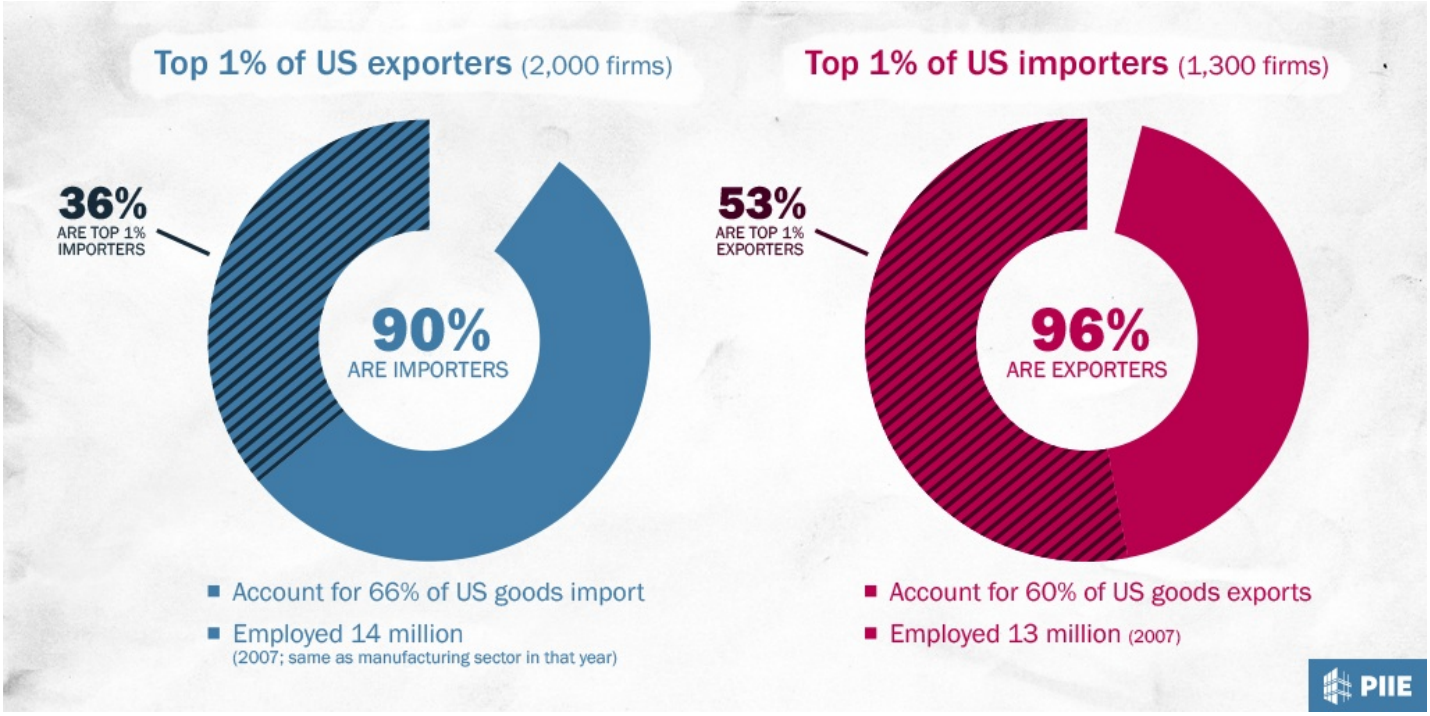
The incoming Trump administration is looking for ways to punish firms that outsource jobs overseas and appears to be considering increasing tariffs (link is external) on imported goods.

While it might sound like a good idea to punish firms that import and help firms that export, the fact is that most exporters, and certainly the biggest exporters, are importers too. (Likewise, most of the biggest importers are big exporters.) Therefore, there is no way to punish importers without hurting the top US exporters.



The following numbers illustrate the point (see infographic):[1]

Of the top 1 percent of exporters (around 2,000 firms):

- 90 percent import goods
- 36 percent are also among the top 1 percent of importer firms
- account for 66 percent of US goods imports
- employed almost 14 million people in 2007 (about the same as the entire manufacturing sector employed in the same year)

Of the top 1 percent of importers (around 1,300 firms):

- 96 percent export
- 53 percent are in the top 1 percent of exporters
- account for 60 percent of US goods exports
- employed almost 13 million people in 2007

Bernard, Jensen, Redding, and Schott (2016) (link is external) provide an explanation for the tight relationship between importing and exporting. First, it is costly for firms to start importing and exporting—effort and investments are required to start doing each. This implies that only the most productive firms will engage in importing or exporting.

Once a firm starts importing, it reduces the firm's costs and thus makes it possible to export. Similarly, exporting increases a firm's revenue and this makes it possible for the firm to import. These two aspects of firm behavior are intertwined and both would be damaged by higher tariff costs.

In a world with these types of interdependent firm decisions, small decreases in trade costs (such as reductions in tariffs) can have magnified effects on trade flows, as they induce firms to serve more markets, export more products to each market, export more of each product, source intermediate inputs from more countries, and import more of each intermediate input from each source country.

But the process can work in reverse. Hence, policies to restrict imports, such as tariffs, that are intended to help a nation's firms can end up hurting its most successful producers, for whom importing is part and parcel of exporting and a central pillar of their overall business strategy.

Conclusion

The common view that exports are good and imports are bad is fundamentally misguided. Imports and exports are inextricably related—it is access to the best, least expensive inputs (wherever they are produced) that enables firms to focus on what they do best. Increasing the cost of importing would hurt our most competitive firms.

References

Bernard, Andrew B., J. Bradford Jensen, Stephen J. Redding, and Peter K. Schott. 2016. *Global Firms* (link is external). NBER Working Paper number 22727. National Bureau of Economic Research.

Note

1. These figures are constructed from firm and transaction level microdata at the US Census Bureau. They are from 2007 (chosen because it was before the financial crisis disrupted trade flows) and cover nearly all merchandise exports/imports and goods exporters/importers. Service imports and exports are not included. The empirical research in this blog was conducted at the Washington US Census Regional Data Center. Any opinions, findings, and conclusions or recommendations expressed in this material are those of the author and do not necessarily reflect the views of the US Census Bureau. Results have been screened to ensure that no confidential data are revealed.