Episode 203. What if Trump halts duty-free packages from China?

Episode webpage

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Transcript

(lightly edited)

Chad Bown: When President Donald Trump imposed 10 percent tariffs on China on February 4, he also separately shut down a super important trade exemption. Suddenly Chinese companies like Shein and Temu no longer had access to something called de minimis – or the ability get a shirt, dress, hat, or some other item valued under $800 into the United States tariff free.

This was huge. And what happened next was also confusing.

The US Postal Service announced that same day it would suspend delivering packages coming in from China. A day later, USPS reversed that decision.

Two days after that, the Trump administration revised its original Executive Order. Chinese packages are once again allowed to enter under the de minimis program without paying any tariffs. But even that seems temporary.

All this confusion aside, Trump's policy, the response, and the Trump policy reversal raise a really important question: What is de minimis?

You are listening to an episode of *Trade Talks*, a podcast about the economics of trade and policy. I'm your host, Chad Bown, the Reginald Jones Senior Fellow at the Peterson Institute for International Economics in Washington.

In this episode, we'll tell you everything you need to know about de minimis. We begin by tracing its up and down, 100-year history under US trade law. We'll then turn to today, to learn how companies, like Shein and Temu, use de minimis to get a massive and growing number of low value parcels from China into the United States. We describe insights from economic research into who benefits and who loses if the de minimis policy comes to an end. And we'll also talk about fentanyl, products made using forced labor, and other ways in which this de minimis exception might be being abused.

PART I. THE POLITICAL ECONOMIC HISTORY OF DE MINIMIS

Chad Bown: To learn about the history of de minimis, this quirky part of US trade law, I spoke with Chris Casey. Chris is a legal scholar and historian at the Congressional Research Service. He also has a brand-new article on de minimis. I began the conversation by asking Chris to define de minimis.

Chris Casey: It basically means the law does not concern itself with trifles. In the context of imported goods, it refers to a policy of exempting goods below a certain value threshold from import duties and, importantly, fees. The government considers the cost of collecting those fees, to not really be worth the effort. And so that threshold is currently $800.

Chad Bown: Are there any other ways those small value shipments are treated differently under this policy?

Chris Casey: In addition to being exempt from duties, taxes, and other fees, de minimis entries often have a less burdensome paperwork requirement for the person who is bringing in the good. And that also means that there is less burden on processing that paperwork for the government.

Chad Bown: That last point about the burden of processing the paperwork for the government is super interesting. It involves balancing the costs to the government of administering a bureaucracy against the benefits of collecting that revenue.

Chris, take us back to the early 1900s and how de minimis was treated at the time by the US government.

Chris Casey: Before the United States had an income tax, so more or less before 1913, nearly all federal revenue came from either import duties or excise taxes. So, de minimis policies were initially about protecting the revenue of the United States by ensuring that customs officials were not, in the words of an assistant secretary of the treasury, they “weren't spending a dollar to collect 50 cents.”

Now this wasn't always codified into law, and what became the de minimis exemption evolved as a set of local practices by customs officers in different customs houses who would just decide that when they were very busy they weren't going to bother with spending time to assess and fill out paperwork on someone coming across the border with a couple of teacups that they bought in Canada.

If the officer wanted to, he or she could collect the duty on those teacups or not. And so, it was uneven, which made sense given that it was tied to local assessments of resources. Depending on how many customs officers just happen to come in that day, whether there's a big bunch of shipments coming in because it's Christmas. This was about managing the flow of imports against the manpower and the resources that were available, and also again, protecting that revenue, which was the whole purpose of the tariff at the time.

Chad Bown: How and when did de minimis become a formal part of US trade law?

Chris Casey: In the 1930s, some lawyers at the Treasury Department, which oversees the collection of tariffs, started to become concerned that these local practices were not entirely legal.

So, Treasury officials went to Congress and asked them for permission to continue these practices to codify the existing practices into law. In 1938, Congress obliged by adding Section 321 to the Tariff Act of 1930. Section 321 authorizes the Secretary “to admit articles free of duty when the expense and inconvenience of collecting the duty would be disproportionate to the amount of such duty.”

In 1938, the threshold was set at $1; in today's terms, $1 dollar translates into $22 dollars.

Chad Bown: De minimis is set as a value threshold. Anything under $1 can get into the United States without paying a tariff or filling out paperwork. But with inflation, what $1 can buy you tends to become less over time. Suddenly a dress priced at $1 dollar in 1938 and that can come in under de minimis may now be priced at $2. With inflation, the same shirt that used to come in tariff free and without any paperwork now has to pay a tariff and fill out a lot of paperwork.

What happened in the 1950s?

Chris Casey: In the 1950s, the Treasury Department again came to Congress asking to raise the threshold to $10 because there was just a lot more trade in the 1950s than the 1930s, which was during the Great Depression. And tariffs had increasingly become a smaller and smaller part of federal revenue.

And so, the Treasury, and many in Congress, at first, seemed to think that doing so would be relatively uncontroversial.

Chad Bown: Were they right?

Chris Casey: They turned out to be wrong.

In the 1950s, Americans were flush with cash. They'd come out of World War II with a booming economy.

And meanwhile, Europeans were trying to recover from the Second World War. Some European companies began advertising in American newspapers and in catalogs, offering to sell mainly clothes – but also things like watches, books, and other small goods – by mail directly to American consumers.

You start seeing advertisements in the *New York Times* and in other newspapers across the country for British dresses that can be mailed directly to you. And they would include the price of the dress as well as the price with the duties that would have to be paid upon delivery.

Chad Bown: *Trade Talks* listeners will be able to see where this is going. The American industry was worried about competition from dresses made in Britain by companies who already had a business model of reaching American consumers directly through sending them mail order catalogs.

How did their fear of British dressmakers and other foreign competitors affect the lawmaking process and what Treasury was trying to do in the 1950s?

Chris Casey: When the Senate Finance Committee held a hearing on a bill raising the de minimis threshold to $10, dozens and dozens of representatives from organizations like the American Knit Headwear Association, the Underwear Institute, the American Retail Federation, and the Ladies Handbag Association all descend on Washington to voice their opposition to the change, arguing that raising the threshold constituted an invitation for the establishment of foreign mail order businesses, not only in Europe, but also in Asia and also from Canada and Mexico, which they argued would be to the detriment of American retailers and manufacturers.

Chad Bown: Amazing! Domestic industry that is worried about import competition lobbies for a way to slow those imports from coming in. Here the way to slow them down was to make sure the imports had to pay a tariff and could not access an expanded de minimis threshold that would have let in knit headwear, handbags, and underwear from Europe duty free.

OK, that was the 1950s. Treasury wants to expand the de minimis threshold but faces pushback and so its efforts are thwarted. The de minimis level stays at $1. When did things eventually change?

Chris Casey: It wasn't until the 1970s – so nearly 40 years after Congress initially passes the exemption, and 20 years after the hearings in the 1950s that Congress seriously begins to consider raising the threshold again at the request of the Treasury Department.

In part, that's because in the 1970s, there was a very high rate of inflation and the de minimis threshold was still $1. By 1978, when Congress is bringing this up again, what would have been $1 in 1938 would have been approximately $4.50. There was a lot of pressure to alleviate strain on the resources of the Treasury Department and the government to increase the threshold, which they ultimately did to $5, which was approximately in line with inflation.

Chad Bown: Those legendary Senate Finance committee hearings of the 1950s – was there the same kind of political pushback in the 1970s?

Chris Casey: There doesn't seem to have been a lot of pushback. The hearings are relatively quiet. There doesn't seem to have been a lot of opposition expressed over this increase. The industry groups that had objected in the 1950s don't seem to show up in the records about the debate over raising it in the 1970s.

Chad Bown: In addition to the massive inflation of the 1970s eroding the value of $1, by this time, of course, the American clothing and apparel industry had already received trade protection through other means – something called the Multi-Fibre Arrangement – that was an incredibly complicated system of quotas limiting how much any given country could sell of any given clothing item into the US market.

So muted political pushback may have also been due to the industry having received protection another way.

Let's move now to the 1990s. This is a period of refreshed trade liberalization in the United States. In the late 1980s, the United States has a new free trade agreement with Canada that is shortly going to be expanded to include Mexico under the NAFTA. In the multilateral system, you have the Uruguay Round of negotiations of the GATT which will ultimately usher in the World Trade Organization, or WTO, in 1995.

What is happening with de minimis in the United States by the early 1990s?

Chris Casey: In the 1990s, things begin to change. Beginning in the 1990s de minimis increasingly becomes cast as a tool of trade facilitation and trade liberalization.

From the beginning, the explicit purpose of the de minimis exemption was to avoid expense and inconvenience to the government, disproportionate to the amount of revenue that would otherwise be collected.

In 1993, Congress increases the exemption from $5 to $200, and this is the first time the threshold was raised in excess of inflation.

Chad Bown: What else did Congress do during this period?

Chris Casey: Congress also begins encouraging the President and the US Trade Representative to negotiate with US trading partners to adopt or increase their thresholds as part of multilateral and bilateral trade agreements.

And then, in 2015, Congress raises the threshold again from $200 to $800, which is the current level. In addition, Congress adopts new language for the first time. Whereas before the statutory language only talked about the expense and inconvenience to the government, in 2015, Congress declares that increasing the threshold would "provide significant economic benefits to businesses and consumers in the United States and to the economy of the United States, through cost savings and reductions in trade transaction costs."

Chad Bown: Fascinating! Congress is embracing de minimis as a tool of trade liberalization. It also wants USTR to push other countries to increase their de minimis levels, as this would presumably benefit American exporters seeking reciprocal access to foreign markets.

Especially in that 2015 legislation, were there arguments, aside from the benefits of trade liberalization, that Congress gave for expanding the de minimis threshold?

Chris Casey: The House Committee on Ways and Means – in its report on the Trade Facilitation and Trade Enforcement Act, which increased the threshold – part of the rationale, in addition to benefiting US consumers and businesses, was to free up government resources that could then be used to focus on interdicting high risk shipments at the border.

Chad Bown: This last point is super important and has some parallels with the first motivations of the 1930s for de minimis and government efficiency. Here, expanding de minimis was not about saving administrative costs to protect revenue. Here, it was about ensuring administrative costs could be spent instead on stopping bad stuff from coming through customs at the border.

What Congress was saying in 2015 is that by raising the de minimis threshold to $800, Customs and Border Protection in the United States would have to check fewer small value packages. CBP's staff and resources would be freed up and could be dedicated to investigating high-risk shipments.

But that also assumes that the number of small value packages coming into the United States requiring an inspection would remain the same. That is where things would change…

PART II. DE MINIMIS TODAY, AND WHAT HAPPENS IF IT ENDS

Chad Bown: Like most parts of trade policy, the 100-year history of de minimis in the United States had its ups and downs. Putting that to the side, by 2015, we're also seeing some major changes in the global economy.

There is the rise of China as a manufacturing powerhouse, including for a lot of stuff that might come into the United States as a low value, de minimis shipment, under $800, like a piece of clothing.

There are new innovations. Mail order catalogs are out; internet companies and e-commerce are in. Entirely new business models are being invented. Amazon comes along and starts intermediating sales between retailers and consumers by using their warehouses and logistics networks to get goods in cheaper.

I asked Amit Khandelwal – Amit is an economics professor at Yale University – how Amazon works. We began by talking about the National Football League and the NFL playoffs that just took place here in the United States.

Amit Khandelwal: So, imagine you're trying to buy your favorite NFL t-shirt. So, my favorite NFL t-shirt would be the Baltimore Ravens. And you go online, and you go to Amazon and you try to look for that favorite t-shirt and you find the right color, the right logo, etc.

Once you place the order, there's a set of things that have happened already, *prior to* placing the order, in the way that Amazon works. So, Amazon would probably have imported that t-shirt in large volume, from an overseas producer, probably from China, into their domestic warehouse. They are all over the US – you probably have seen some of these.

Once you place the order, the package is going to ship directly from the warehouse. Those machines that you might have seen on a YouTube video looking at Amazon's warehouse are going to pull it down from some part of the warehouse, it gets loaded into a box and then shipped – maybe through UPS – to your house.

And so, in that situation, you've received the good, but it has technically come to you from the domestic warehouse that's already located in the United States. The good is made in China, and it was shipped to the warehouse, many months ago.

Chad Bown: How does the approach of one of those big box retail stores like Walmart compare to what Amazon does?

Amit Khandelwal: Walmart does something very similar, whereas instead of you shopping online, you might go to the physical store. But that retailer has already placed an order for a large volume. It has come in a container. It's gone to a warehouse, and then from the warehouse, it goes to the local store where you pick it up.

Chad Bown: More recently you have new companies – often Chinese companies – that have a different business model from an Amazon or a Walmart for getting products like your Ravens t-shirt to an American consumer. How do those Chinese companies work?

Amit Khandelwal: In the past several years, there's been a revolution in the way that consumers can obtain these types of products, which is something that we refer to as direct-to-consumer trade. In direct-to-consumer trade, the distinction is that instead of a package going to a domestic warehouse, it bypasses that, and it goes directly from the producer in China to your house. And that's a very different business model.

The current major players, operating in this direct-to-consumer business model at the moment, are companies that listeners might have heard of – Temu, Shein, and AliExpress.

These are companies that have been operating for 7-8 years or so, but it's really been in the past several years where their reach into the consumer market has really expanded.

Chad Bown: Even though the same t-shirt may still be coming in from China, you described how these business models are different. What are the tradeoffs between the Amazon approach and this new direct-to-consumer approach of a Temu or Shein platform?

Amit Khandelwal: Amazon for the past 20 years has been building a really large domestic network of warehouses, in which they effectively are trying to reach the consumer within a day or within two days. So, you place the order and the shipment is going to come within a day or two.

Now, if you're instead purchasing this good from overseas, it might take a little bit more time. The good might actually not have already been produced yet. The platform might say, okay, we're getting orders for this product, we want you to make it, and then we will bring it over to the consumer.

Effectively, the platforms are trading off whether they want to service the consumer with speed, or if they potentially want to save those inventory warehouse costs, but make the consumer wait a few extra days, in order to receive that item.

Chad Bown: You also mentioned this direct-to-consumer business model of Temu and Shein has really boomed over the last 7-8 years. What are the reasons for that boom?

Amit Khandelwal: One is clearly technological. There are developments in e-commerce, logistics, and innovation for these new types of business models that enable a platform to mediate a transaction that goes from one corner of the world all the way to another corner of the world.

And that's really a product of lots of innovations, both in logistics – i.e., being able to track that package and to manage something that's also quite complicated in e-commerce also involves the returns of these packages.

But innovations are also in the ability to reach consumers. Some of these platforms – like Temu and Shein – are quite integrated into social media. So, an influencer might purchase a product from Temu and Shein and share that product with his or her followers, and that can really spread the purchases of those goods.

Chad Bown: Social media like TikTok and influencers and innovations there played a role in furthering this direct-to-consumer business model.

What about policy changes? Certainly the 2015 law where Congress expanded the de minimis threshold from $200 to $800 also likely played a role.

Amit Khandelwal: This gave businesses a lot more room in which they could import, or get products to consumers directly, and avoid having to pay any potential US tariffs, but also lots of other expenses clearing imported goods, such as paperwork and broker fees.

Second, of course, is the increase in tariffs that we saw in 2018 and 2019 under the first Trump administration using Section 301 of US trade law. The US raised tariffs on Chinese imports up to 15 to 20 percent.

So now this tariff exemption suddenly became much more valuable for products that were shipped under this de minimis exemption. Where previously, if you were sending a product that was subject to a low tariff because it was imported from China, and now the tariff goes to 20 percent, there's now an additional incentive to innovate on this business model – to not send the good through bulk cargo – but instead try to send it directly to a consumer, where the consumer gets it in an individual package and it's going to be well under the $800 exemption, and therefore will not have to have to pay duties on it.

Chad Bown: When President Trump imposed all of those tariffs on imports from China in 2018 and 2019 under this different US law, Section 301 - and this covered about two thirds of what Americans were buying from China at the time, so a lot of stuff – with those tariffs, you did not have to pay those tariffs if you brought the good into the United States under this de minimis exception. So, there were suddenly new incentives for Temu or Shein to use de minimis.

Did the volume of shipments coming into the United States under this de minimis provision change much during this period? Does CBP provide information on this?

Amit Khandelwal: CBP reports some official statistics on their website. In 2015, prior to the threshold increasing to $800, there were 138 million packages that came into the country through the Section 321 import channel that were collectively valued at $1.6 billion.

In 2017, a year after the threshold has changed, there's 332 million shipments coming in collectively valued at $13 billion.

And then last year, there were 1.36 billion shipments coming in that were collectively valued at $65 billion.

And in value terms, these de minimis shipments go from being basically a minuscule part of international trade before the trade war to suddenly 7 percent of the US imports of final consumer goods and about 5 percent of total e-commerce sales in the country today.

Chad Bown: Wow, OK. So today there are 1.36 billion of these shipments per year which is now 10 times bigger than it was just 10 years ago. So, what has been the US government policy response over the last year or so for de minimis, or Section 321?

Amit Khandelwal: Section 321 has been in the crosshairs for policymakers for some time. Last year, there were five bipartisan congressional bills that were seeking to either eliminate or to modify or in general to reduce the benefits of imports that received this exemption.

And then the Biden administration, in September 2024, through an Executive Order, took steps to remove the exemption on products that are subject to Section 301 tariffs.

Chad Bown: Then, as we mentioned at the top, on February 4, President Trump's Executive Order goes into effect. This was his Executive Order imposing new 10 percent tariffs on everything the United States imports from China. Included was the announcement that Trump would go beyond the Biden administration approach and eliminate the eligibility of de minimis shipments from China entirely. Now, we are a little confused because three days later, the Trump administration put the de minimis part of that Executive Order on pause, and we are still waiting for clarity on what the long-term policy for de minimis will be. But as you mentioned, doing something on de minimis has bipartisan support in Congress, so something is really likely to happen here. The days of de minimis may be numbered.

OK, Amit. You have an amazing new research paper with Pablo Fajgelbaum at UCLA where you examine some of the economic implications of this de minimis exception.

Tell us how things are likely to be affected if de minimis treatment of imports from China suddenly does go away.

Amit Khandelwal: So now that the de minimis exemption is potentially going away, there's going to be two additional costs that are going to be incurred when the shipment goes directly from China to your house.

The first is that it will now be subject to the tariffs that we have on China, which could range anywhere from, say, 10 percent to maybe 25 percent.

The other is that there's now going to be these additional fees that are going to be involved in the paperwork that's used to process these shipments.

That number is harder to pin down. We looked at this, with some detail and came up with the number of around $20 a package. Some people think it should be higher. Some people think it should be lower, but let's just suppose it's $20 a package.

Let's go back to my official Ravens t-shirt that I'm buying. Maybe I'm adding a hat as well. So, I'm importing it for $100.

We basically find that the cost of this import will now go from $100 to about $125, inclusive of the tariffs and fees. That's going to be about a 25 percent increase in prices.

Chad Bown: Now, you and other economists studied the tariff increases during the trade war. The evidence to date has found that most of those price changes due to the new US tariffs were passed on to Americans. Put differently, there is not much evidence that foreign exporters were lowering their prices and bearing the incidence of the tariffs, which is what President Trump claimed would happen. Instead, if costs changed by 25 percent because of the tariffs, that typically translated into a 25 percent price increase for someone in the United States.

OK, in your new research on de minimis, you are also interested in the distributional impact of this policy being eliminated. You want to examine what kinds of households in the United States currently benefit the most from getting these shipments of $800 or less from the Temus and Sheins of the world. This seems hard. How do you do that?

Amit Khandelwal: One of the things that makes de minimis imports hard to study is that, precisely because not a lot of paperwork is filled out on them, the typical channels through which we study US import data don't actually record de minimis transactions.

We worked with three large global carriers to obtain the universe of shipments into the country, which range from $0 shipments – which would be like a gift or a document – all the way up to several hundred thousand or several million dollars' worth of a shipment of a critical part that's going to a particular business.

But the small value packages that are handled by these carriers are typically going to households. And we therefore can see the direct purchases of products from overseas that are being handled by these three carriers.

Chad Bown: How are you able to link information from those three carriers and those de minimis shipments to the American individuals who are buying them?

Amit Khandelwal: We know the zip code of where the packages are located and we can get some inference from Census data on whether the zip code has wealthier individuals or lower income individuals, are located in a dense city or rural area, and we can therefore trace the potential impacts of this policy throughout the income distribution.

Chad Bown: How would this policy change eliminating de minimis for China impact different types of American households? What do you find?

Amit Khandelwal: We see that lower income households appear to engage in direct-to-consumer trade more than richer households. This just means that they're going to be heavier users of de minimis shipments than richer consumers.

The other thing that we find is that – once you look at where are these de minimis shipments coming from – we see that lower income households are disproportionately more likely to source these de minimis shipments from China, which is the current high tariff origin.

If the de minimis policy is removed, or if it's removed against China, we're going to find that the price increases are going to be higher for lower income households than for richer income households.

We also find that those two patterns – the importance of direct shipments and the importance of China within de minimis shipments – are also larger in zip codes with higher minority household shares.

Chad Bown: Removing de minimis for Chinese imports would disproportionately hurt lower-income American households and minority households.

Overall, how would you characterize the de minimis policy, and how does it compare to other things we know about the progressivity of the US tariff schedule?

Amit Khandelwal: We find that the de minimis exemption, at least through its impact on prices, is a pro-poor policy for US consumers. This runs counter to the general US tariff schedule, which is anti-poor – in the sense that we often see higher tariffs on items that are disproportionately part of lower-income consumers' baskets.

The main takeaway that we that we find in this paper is that the de minimis policy is quite a progressive part of US trade policy, and removals of the de minimis exemption would be a regressive tax on consumers.

Chad Bown: That is who is hurt by this policy change. Who might benefit from removal of the de minimis exemption?

Amit Khandelwal: So, there would be two potential beneficiaries from the removal of the exemption. The first would be the domestic US producers who were now competing against producers in China who, if they shipped below the threshold, did not face a tariff.

The second would be large retailers like the Amazons and Walmarts of the world who are importing goods in large bulk and are paying tariffs. They stand to benefit from the Sheins and Temus of the world who now are going to face tariffs on the shipments of their products into the United States.

Chad Bown: There are two things going on here over the last couple of years. You have innovative Chinese companies and then all of this US policy conversation involving de minimis and Section 321 really entering the public debate.

How are these companies responding? Are they likely to change their business models?

Amit Khandelwal: Last year, Amazon created Amazon Haul which was effectively their way to compete on the direct-to-consumer trade with Temu and Shein. On Amazon's website, you could purchase goods directly from the producer and it would come in to the household under the threshold. Now, it's a little bit unclear what will happen to Amazon Haul, but for the general Amazon business, which is, by and large, one of importing in large bulk into warehouses, I think Amazon would stand to benefit from this change.

But then at the same time, since Section 321 has been in the crosshairs for some time, I think Shein and Temu have been considering building new domestic warehouses or acquiring domestic warehouses in order to facilitate trade that looks a little bit more like Amazon. And they started that last year, and I think that trend will continue.

Chad Bown: Stepping back from all this, is the United States alone in tightening the de minimis exemption?

Amit Khandelwal: No, far from it. So, there are many countries in the world that are thinking about tightening de minimis. The EU is doing something similar. The UK is considering it.

This is not just a rich country phenomenon, but lower income countries – i.e., Turkey, Philippines, South Africa, Chile Brazil – these are all examples of countries that have moved to tighten the de minimis exemption.

PART III. OTHER PUBLIC POLICY CONCERNS WITH DE MINIMIS

Chad Bown: In this last section, I want to briefly touch on other important public policy concerns in the United States motivating efforts to change the de minimis exemption. This is not only about protectionism.

With this is massive, massive growth of these small parcel shipments overwhelming CBP, policymakers are also increasingly worried that de minimis is being used as an illicit channel for bad stuff to get into the United States.

One example is imports of fentanyl, the synthetic opioid drug. The National Institutes of Health says fentanyl has led to hundreds of thousands of overdose deaths in the United States over the last couple of years.

Another example might be a t-shirt or other piece of clothing made using forced labor. Under the Uyghur Forced Labor Protection Act, goods made in Xinjiang province in China are basically prohibited from entry into the United States.

Suppose fentanyl and clothing made using forced labor are making it into the United States through the de minimis channel, and we want that to stop.

Amit, what can we learn from your research about a policy change that eliminates de minimis and increases tariffs? Will tariffs significantly cut into that sudden volume surge of 1.36 billion small package shipments per year?

Amit Khandelwal: Maybe the volume issue comes down a little bit because of the tariffs, but it's not going to drop by half.

And so, there's two things to consider. One is, you still have to deal with this. And then the second is that it could just get reallocated into the large cargo shipments. This might mean that you have to step up enforcement on the large cargo shipments.

It's not just auditing more of the de minimis packages, but also auditing of all US goods.

It's definitely an issue that I think needs to be dealt with, and it's definitely coming in through the border. The question is are tariffs the right tool to solve this particular thing?

Chad Bown: So the government may need to dedicate more resources for enforcement and inspections – increasing tariffs and cutting off de minimis are unlikely to solve the problem by themselves and could just push these illicit goods into the normal cargo shipments' channel instead.

Before we conclude, as always on *Trade Talks*, we like to do more than just point out problems. We also like to propose potential solutions.

Amit, you've thought hard about de minimis. As an economist, are there alternative approaches out there? Approaches that might preserve some of the benefits to consumers of the direct-to-consumer shipping model, but which also might tackle the concerns about fentanyl or goods made with forced labor, or counterfeit goods coming in?

Amit Khandelwal: One thing that could be more targeted is to create a trusted shipper program, or a trusted shipper and logistics provider program. Effectively, this is like a TSA pre-screen for packages. This might preserve the benefits of low tariffs for consumers and low burden on the entire transaction, while also minimizing the chance that narcotics or counterfeits come through this channel.

Chad Bown: How might that work? Wouldn't you still need someone to monitor those packages to make sure bad stuff isn't making its way into them?

Amit Khandelwal: I agree that monitoring of the channel becomes difficult, but what a trusted channel could potentially do is push some of that enforcement cost onto Temu and Shein and other platforms and other logistics providers who are closer to their supply chain.

And there would be a very big stick, so that if that were violated, they would face some costs – i.e., they would get bounced into the formal channel.

And so, they would have an incentive to then ensure and to provide the necessary information to prove that, in fact, this product is safe.

Chad Bown: Interesting. So, for our non-American audience, TSA Pre-Check is this program we have in the United States where, if you as an individual are willing to pay a fee and submit yourself to a background check, you can get access a special, faster security screening line at the airport. You don't have to take off your shoes or pull your laptop out of your carry-on bag when going through those X-ray machines at security.

So much like Chad could become a trusted airplane passenger, under your policy idea, Temu and Shein and Amazon Haul could all become trusted shippers if they took on the cost of monitoring their supply chains to ensure no fentanyl or counterfeits or products from forced labor made it into the packages they want to send through the de minimis channel. And presumably CBP could audit these companies periodically and if CBP found violations they could impose penalties including bouncing them from access to the de minimis channel altogether. This would provide incentives for these platforms to do some of the enforcement for us.

Fascinating policy idea, and amazing research.

Amit, thank you very much.

Amit Khandelwal: Thanks for having me on.

GOODBYE FOR NOW

Chad Bown: And that is all for *Trade Talks*.

A huge thanks to Chris Casey at the Congressional Research Service and Amit Khandelwal at Yale University.

There are two pieces of research I want to plug. For Chris, check out his recent CRS report titled "Imports and the Section 321 (De Minimis) Exemption: Origins, Evolution, and Use."

For Amit, check out his recent paper with Pablo Fajgelbaum at UCLA titled "The value of de minimis imports."

I will post links to both papers on the *Trade Talks* website.

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with Chad P. Bown

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- Fajgelbaum, Pablo and Amit Khandelwal. The Value of De Minimis Imports. NBER Working Paper No 32607, February 2025 (revised).