

Tariff Rate Uncertainty and the Structure of Supply Chains*

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Abstract

We model how changes in trade policy affect firms' choice of procurement system. We show that a reduction in the probability of a trade war can foster the adoption of "Japanese"-style procurement practices, in which domestic buyers ensure the provision of high-quality inputs from foreign suppliers via long-term, just-in-time relationships. Empirically, we demonstrate that a change in U.S. trade policy that eliminated the possibility of substantial increases in U.S. tariffs on Chinese goods coincides with a shift towards "Japanese" procurement. Quantitative simulations suggest that this shift led to substantial U.S. welfare gains. (JEL F13, F14, F15, F23) (Keywords: Supply Chain, Uncertainty, Trade War, Procurement)

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