Machinery Production Networks and Tariff Evasion
(preliminary version)

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Abstract: In this paper we followed Fisman and Wei’s (2004) approach to estimate the effects of import tariff rates on tariff evasion. We focus on East Asian countries import of machinery products. Our main objective is to study if trade realized inside production networks (intra-regional) is less prone to import tariff evasion than the trade outside it (inter-regional). In this study we considered the differences in tariff evasion between intra and inter-regional imports; parts and components and final products; and the heterogeneity between electric machinery and transport equipment. The data provide evidences that intra-regional imports are less prone to tariff evasion than inter-regional imports. Besides this, we identify differences in the channels employed to evade tariff in intra and inter-regional imports. The results suggest that tariffs in intra-regional imports are mainly evaded through underreport of quantities, while inter-regional import tariffs are evaded through unit price misreport.

JEL Classification Codes: F14, K42, H26

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