



## Research

# How a Trade War with China Will Impact U.S. Health Care Costs

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On June 15, the U.S. Trade Representative (USTR) released [an updated list](#) of imports from China, valued at roughly \$50 billion, that will be subject to a new 25 percent tariff under [Section 301](#). This section grants the president authority to impose tariffs unilaterally on nations that engage in unfair trade practices. The updated list includes [approximately \\$34 billion](#) of imports from China that are now subject to the new tariffs, and another [roughly \\$16 billion](#) of imports that may be subject to tariffs after public review.

On Tuesday, the administration further [modified](#) the Section 301 list by adding a 10 percent tariff on approximately \$200 billion of imports from China, which will take effect after public review. This modification occurred after China retaliated to the Section 301 tariffs on \$50 billion of imports with [exactly proportional tariffs](#) on U.S. exports.

Previous American Action Forum (AAF) [research](#) found that tariffs on the original Section 301 product list (on roughly \$50 billion of imports) could increase nationwide consumer costs by up to \$11.5 billion per year. While the administration has altered the product list since first releasing it, the dollar value of affected imports has not changed, and thus the impact on aggregate prices will be the same. The modified tariffs on \$200 billion of imports, however, can be expected to raise nationwide prices by roughly another \$20 billion per year, which would result in a total cost of \$31.5 billion annually.

This report examines the overall effect of these tariffs specifically on U.S. health care. On the most recent lists are an array of medical equipment, including items such as MRI machines, X-ray machines, and surgical instruments. AAF identified 55 products on the tariff lists that can be classified as medical equipment. The specific imports identified by AAF, their dollar value in 2017, and the expected additional cost burden to be faced by consumers can be found in an [Excel spreadsheet here](#).

Altogether, the Section 301 tariffs and newest retaliatory tariffs against China will impact nearly \$1.8 billion of medical imports each year. Assuming that import levels remain the same, this total translates to prices for medical equipment increasing by roughly \$400 million nationwide. Both medical practitioners and consumers of medical services can expect to shoulder the burden of these costs. To the extent that providers face an increased cost in acquiring medical equipment, they will try to recoup those costs through higher prices to patients. The immediate impact on patients will depend primarily on whether they hold insurance, what kind of insurance they hold, and the generosity of their insurance plans.

These higher prices will hit the uninsured and those with substantial out-of-pocket liabilities hardest. Those with Medicare will likely be unaffected, at least for the remainder of the year, as Medicare reimbursement rates are not adjusted mid-year and beneficiaries' coinsurance rates are tied to the government's reimbursement rate. The impact on commercially insured individuals will depend on the terms of the contract between the insurer and the provider, and whether and to what extent it allows for mid-year price adjustments. Presumably, some patients will face higher costs and some providers will be forced to absorb the costs they are unable to pass on to patients or insurers. If the tariffs remain in place as insurers finalize their premium and reimbursement rates for next

year, it is likely at least some of the cost of these tariffs will be reflected in next year's rates.

Further, these new tariffs will have a significant impact on American manufacturers. [Research](#) from the Peterson Institute for International Economics (PIIE) found that American manufacturers use in production 94 percent of the imports now facing Section 301 tariffs. These tariffs will increase the cost of production, making it more expensive to manufacture goods in the United States, and likely place additional upward pressure on consumer prices.

In addition to the tariffs on \$50 billion of imports from China that are starting to go into effect now, and the tariffs on \$200 billion that could go into effect later this year, he has also threatened to impose tariffs [on all \\$500 billion](#) of imports from China. These tariffs could exacerbate the negative effects, including price increases, decreased availability of products, and likely retaliation from China. It will also increase the cost of healthcare, disproportionately harming the uninsured.

Additional tariffs could have further consequences for the health care industry, as well. There are several significant differences between the [original tariff list](#) released on April 3 and the updated list of products now facing tariffs. The prior list included several pharmaceutical ingredients, including insulin, epinephrine, vaccines, birth control pills, and other raw ingredients used in pharmaceuticals that are imported from China. The inclusion of these items caused significant concern: Insulin prices [have been rising](#) dramatically for years, epinephrine—used to treat life-threatening allergic reactions—has been [in short supply](#), and vaccines prevent the onset of debilitating and fatal diseases. These concerns were strong enough that the administration excluded all pharmaceutical products from the most recent Section 301 tariff list. While there are no pending tariffs on these items, if the Trump Administration extends tariffs to all Chinese imports, these pharmaceutical products could become even more expensive and scarce.