



# Choice:

ECONOMICS MATERIALS FOR  
SUCCESS

STEFANI MILOVANSKA-FARRINGTON

Incentives – Why do Shein and Temu ship packages from Chinese factories directly to U.S. shoppers?

**Related news article:** [Shein's tax perk is as American as apple pie](#) (Reuters, June 21, 2024) and [Amazon is launching a Shein and Temu competitor](#) (Quartz, June 2024)

**Summary:** This worksheet could be used for in-class or homework practice. Students will be asked to read suggested *excerpts* from two short articles: one about low-cost, fast-fashion retailers Shein and Temu's benefit from a U.S. import tariff loophole, and another about Amazon's strategy to compete with the fast-fashion giants. There is a tariff levied on imports in the U.S. from China, but under the so called "de minimis" exemption, imported packages that are worth \$800 or less are exempt from paying the tax. To avoid the levies, Shein and Temu have started to deliver packages valued at \$800 or less from Chinese factories directly to U.S. shoppers. In an attempt to compete with the low-cost retailers, Amazon has considered launching a new storefront with off-brand, low-priced clothes and home goods shipped from Chinese warehouses directly to U.S. customers. The worksheet will ask students to discuss a set of questions that will help them understand and apply core economics concepts such as incentives and unintended consequences. **Answers are provided at the end of this document.**

**Learning objectives:** At the end of this worksheet, students will be able to:

- o Understand the role of incentives in decision-making in the context of Shein, Temu and Amazon;
- o Identify the unintended consequence of the U.S. import tariff and the "de minimis" exemption;
- o Interpret a figure of the number of shipments of duty-free goods worth \$800 or less that enter the U.S. to notice trends;
- o Examine reasons why Shein and Temu have been able to offer competitive prices of fast-fashion goods.

**Economics concepts:** Incentives, Unintended consequences, Tax, Tariff, Import, Competition, Comparative advantage.

In Collaboration With:

FOUNDATION for  
ECONOMIC EDUCATION  
— EST. 1946 —



## **Suggested excerpts:**

[Shein's tax perk is as American as apple pie](#) (Reuters, June 21, 2024)

“Shein and Temu are Chinese-founded companies smartly employing some all-American business tactics. The fast-fashion retailer and its rival skirt import levies courtesy of a loophole...”

“... they're [Shein and Temu are] not the only ones whose business models benefit from quirks in the tax system.”

“Singapore-based Shein and its rival, owned by Chinese technology firm Pinduoduo, have lodged in the psyches of U.S. consumers hooked on their inexpensive fashion and oddball goods. The duo can hawk cheaper wares than Western rivals thanks to their lean manufacturing and algorithm-enabled virtual storefronts – but also because of what's known as the “de minimis” exemption. It allows an importer to ship packages to individuals into the United States without paying customs duties, for items worth \$800 or less.”

“Shein and Temu deliver their goods from factories in China directly to the consumer, unlike retailers such as H&M, opens new tab that ship in bulk to local markets and then distribute to customers.”

“A congressional committee concluded, opens new tab that three out of 10 packages coming in through the loophole were from Temu and Shein.”

“The provision exempts importers from paying levies on items valued at \$800 or less.”

[Amazon is launching a Shein and Temu competitor](#) (Quartz, June 2024)

“Amazon wants to win back the hearts and minds of shoppers that have been lured away by low-cost retailers Shein and Temu.”

“The e-commerce giant is planning to launch a new storefront featuring low-priced clothing and home products from Chinese sellers, Amazon revealed at an invite-only conference for Chinese vendors...”

“Amazon’s strategy has been focused on fast deliveries and variety, but its foray into low-priced goods is its most blatant effort to compete with Shein and Temu, two Chinese-origin e-retailers that have upset competitors thanks to their rock-bottom prices.”

“U.S. consumers will be able to shop an array of unbranded items, from gua shas to phone cases, for less than \$20, [...] These products will be shipped directly from Chinese warehouses — and shoppers can expect the items at their doorstep in 11 days or less.”



“Shein, the Singapore-based fast-fashion giant with a \$45 billion valuation, and Temu, which launched at the end of 2022 and has already amassed more than 130 million global users, have had a meteoric rise.”

“They have already left other competitors like H&M, Fashion Nova, Forever 21, and Zara, in the dust when it comes to revenue and market share.”



## Student Questions

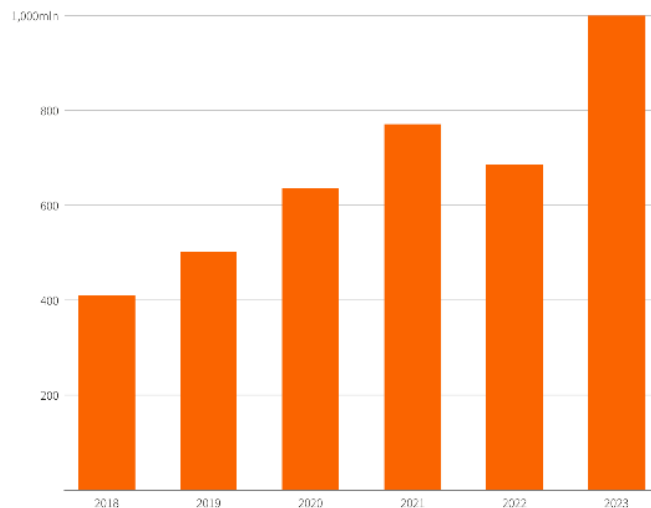
1. True or false? Shein and Temu are the first businesses which have ever taken advantage of “quirks in the tax system.”
  
2. Which of the following statements best describes the “de minimis” exemption?
  - a. Items imported to China from the U.S. are exempt from an import quota.
  - b. Shein and Temu are exempt from all customs duties levied on imports to the U.S.
  - c. Businesses are exempt from a U.S. import tariff if they import goods in bulk to the U.S.
  - d. Items imported to the U.S. that are worth \$800 or less are exempt from an import tariff.
  
3. The fact that Shein and Temu deliver orders from factories in China directly to the customers is a(n) \_\_\_\_\_ of the U.S. import tariff and the “de minimis” exemption.
  - a. Unintended consequence.
  - b. Opportunity cost.
  - c. Scarcity.
  - d. Absolute advantage.
  
4. The fact that the U.S. applies an import tariff on packages from China valued above \$800 means that:
  - a. There is a tax levied on packages valued above \$800 imported in the U.S. from China.
  - b. There is a tax levied on packages valued above \$800 imported in China from the U.S.
  - c. There is a maximum number of packages that could be imported in the U.S. from China.
  - d. There is a maximum number of packages that could be imported in China from the U.S.
  
5. Packages imported in the U.S. from China are exempt from an import tariff if they are valued at \$800 or less. Suppose that the U.S. government decreased the \$800 threshold, and only packages worth below \$600 qualified for the “de minimis” exemption. Which of the following would be most likely to happen as a result of this incentive?
  - a. Shein and Temu would stop delivering goods directly from factories in China to U.S. customers.



- b. Shein and Temu would start shipping goods in bulk from countries other than China to U.S. markets and then distribute packages to U.S. customers.
- c. Shein and Temu would become more likely to deliver goods directly from factories in China to U.S. customers.
- d. Shein and Temu would become less likely to deliver goods directly from factories in China to U.S. customers.

6. The following figure from the U.S. Customs and Borders Protection, also provided in the article from Reuters, shows the number of shipments of duty-free goods worth \$800 or less that entered the U.S. each year from 2018 to 2023. According to the figure, which of the following statements about these shipments is correct?

**US shipments of duty-free goods \$800 or less spike**



Note: Fiscal year ending September  
Source: U.S. Customs and Border Protection | J. Saba | Breakingviews | May 30, 2024

- a. Compared to 2018, there were more than twice as many shipments worth \$800 or less entering the US in 2023.
- b. The number of annual U.S. shipments worth \$800 or less has been constantly increasing between 2018 and 2023.
- c. Two times more shipments entered the U.S. in 2021 than in 2019.
- d. The annual number of U.S. shipments worth \$800 or less was the highest in 2021.

7. According to the article from Reuters, what are the reasons why Shein and Temu have been able to offer customers lower fast-fashion prices than their Western competitors? Select all that apply.

- “Lean” manufacturing (that is, ability to minimize waste and maximize productivity).
- Offering unique products without close substitutes.
- Availability of virtual storefronts.



- Ability to avoid paying custom duties on some goods shipped from China.
- Shipping goods in bulk to local markets to then distribute to local customers.

8. According to the article from Quartz, Shein and Temu's ability to offer cheap goods to customers has been a(n) \_\_\_\_\_ for Amazon to consider launching a "discount" section in its online store the goods in which will be directly shipped to consumers from China.

- a. Opportunity cost.
- b. Marginal benefit.
- c. Incentive.
- d. Comparative advantage.

9. According to the article from Quartz, which of the following statements about Amazon is correct?

- a. Amazon has always prioritized offering the lowest possible price rather than fast delivery and variety.
- b. Amazon has decided to introduce a storefront featuring clothes and home goods at low prices to compete with Shein and Temu.
- c. Amazon, Shein and Temu are not competing in the fast-fashion market.
- d. Amazon's new storefront will feature branded items delivered from any country in the world.

10. According to the article from Quartz, "Amazon's strategy has been focused on fast deliveries and variety." If Amazon has had a comparative advantage in fast deliveries, this means that:

- a. Amazon delivers orders faster than any of its competitors.
- b. Amazon delivers orders faster than Shein and Temu.
- c. Amazon does not have to give up any of its other features to deliver orders fast.
- d. Amazon has a lower opportunity cost of delivering orders fast than its competitors.



## Answer Key

1. True or false? Shein and Temu are the first businesses which have ever taken advantage of “quirks in the tax system.”

**Answer: False. The article states that “they're not the only ones whose business models benefit from quirks in the tax system.”**

2. Which of the following statements best describes the “de minimis” exemption?

- a. Items imported to China from the U.S. are exempt from an import quota.
- b. Shein and Temu are exempt from all customs duties levied on imports to the U.S.
- c. Businesses are exempt from a U.S. import tariff if they import goods in bulk to the U.S.
- d. Items imported to the U.S. that are worth \$800 or less are exempt from an import tariff.

**Answer: D. According to the articles, the “de minimis” exemption “allows an importer to ship packages to individuals into the United States without paying customs duties, for items worth \$800 or less.”**

3. The fact that Shein and Temu deliver orders from factories in China directly to the customers is a(n) \_\_\_\_\_ of the U.S. import tariff and the “de minimis” exemption.

- a. Unintended consequence.
- b. Opportunity cost.
- c. Scarcity.
- d. Absolute advantage.

**Answer: A. The purpose of the “de minimis” exemption was not for Shein and Temu to start shipping orders directly from Chinese factories to U.S. customers.**

4. The fact that the U.S. applies an import tariff on packages from China valued above \$800 means that:

- a. There is a tax levied on packages valued above \$800 imported in the U.S. from China.
- b. There is a tax levied on packages valued above \$800 imported in China from the U.S.
- c. There is a maximum number of packages that could be imported in the U.S. from China.
- d. There is a maximum number of packages that could be imported in China from the U.S.



**Answer: A. A U.S. import tariff is a tax levied on goods imported in the U.S. from China.**

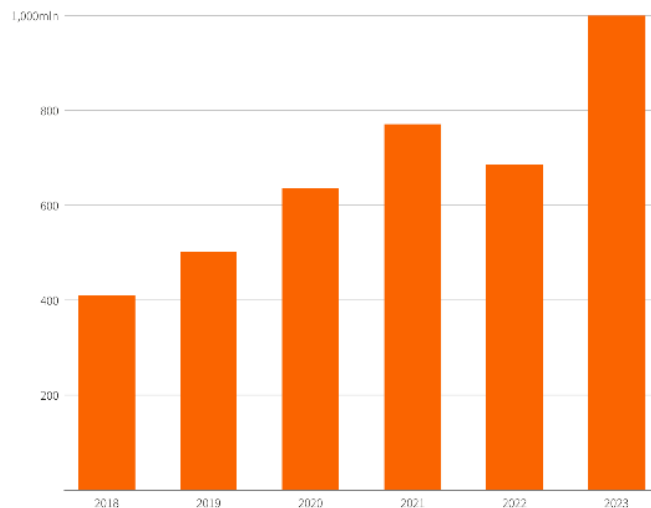
5. Packages imported in the U.S. from China are exempt from an import tariff if they are valued at \$800 or less. Suppose that the U.S. government decreased the \$800 threshold, and only packages worth below \$600 qualified for the “de minimis” exemption. Which of the following would be most likely to happen as a result of this incentive?

- a. Shein and Temu would stop delivering goods directly from factories in China to U.S. customers.
- b. Shein and Temu would start shipping goods in bulk from countries other than China to U.S. markets and then distribute packages to U.S. customers.
- c. Shein and Temu would become more likely to deliver goods directly from factories in China to U.S. customers.
- d. Shein and Temu would become less likely to deliver goods directly from factories in China to U.S. customers.

**Answer: D. If the threshold was lower, fewer packages would qualify for the “de minimis” exemption. As a result, the incentive to deliver packages directly from Chinese factories to U.S. customers would be lower. Therefore, Shein and Temu would be less likely to do it.**

6. The following figure from the U.S. Customs and Borders Protection, also provided in the article from Reuters, shows the number of shipments of duty-free goods worth \$800 or less that entered the U.S. each year from 2018 to 2023. According to the figure, which of the following statements about these shipments is correct?

**US shipments of duty-free goods \$800 or less spike**



Note: Fiscal year ending September  
Source: U.S. Customs and Border Protection | J. Saba | Breakingviews | May 30, 2024



- a. Compared to 2018, there were more than twice as many shipments worth \$800 or less entering the US in 2023.
- b. The number of annual U.S. shipments worth \$800 or less has been constantly increasing between 2018 and 2023.
- c. Two times more shipments entered the U.S. in 2021 than in 2019.
- d. The annual number of U.S. shipments worth \$800 or less was the highest in 2021.

**Answer: A. There were a little more than 400 million U.S. shipments under \$800 in 2018, and about 1000 million (1 billion) such shipments in 2023. In 2019 and 2021, there were about 500 million and 750 million shipments, respectively (not double). The number of U.S. shipments decreased in 2022 although it was gradually increasing in all other years between 2018 and 2023.**

7. According to the article from Reuters, what are the reasons why Shein and Temu have been able to offer customers lower fast-fashion prices than their Western competitors? Select all that apply.

- “Lean” manufacturing (that is, ability to minimize waste and maximize productivity).
- Offering unique products without close substitutes.
- Availability of virtual storefronts.
- Ability to avoid paying custom duties on some goods shipped from China.
- Shipping goods in bulk to local markets to then distribute to local customers.

**Answer: The following are the three correct answers:**

- **“Lean” manufacturing.**
- **Availability of virtual storefronts.**
- **Ability to avoid paying custom duties on some goods shipped from China.**

**The article states that “the duo can hawk cheaper wares than Western rivals thanks to their lean manufacturing and algorithm-enabled virtual storefronts – but also because of what's known as the “de minimis” exemption.”**

8. According to the article from Quartz, Shein and Temu’s ability to offer cheap goods to customers has been a(n) \_\_\_\_\_ for Amazon to consider launching a “discount” section in its online store the goods in which will be directly shipped to consumers from China.

- a. Opportunity cost.
- b. Marginal benefit.
- c. Incentive.
- d. Comparative advantage.



**Answer: C. Shein and Temu’s ability to offer cheap goods to customers has motivated Amazon to consider launching a “discount” section to remain competitive.**

9. According to the article from Quartz, which of the following statements about Amazon is correct?

- a. Amazon has always prioritized offering the lowest possible price rather than fast delivery and variety.
- b. Amazon has decided to introduce a storefront featuring clothes and home goods at low prices to compete with Shein and Temu.
- c. Amazon, Shein and Temu are not competing in the fast-fashion market.
- d. Amazon’s new storefront will feature branded items delivered from any country in the world.

**Answer: B. Amazon has considered introducing a new storefront that would feature unbranded, “low-priced clothing and home products from Chinese sellers.” They will be shipped directly from Chinese warehouses to U.S. consumers. This strategy to be able to compete with Shein and Temu is different from Amazon’s previous focus on fast delivery and variety.**

10. According to the article from Quartz, “Amazon’s strategy has been focused on fast deliveries and variety.” If Amazon has had a comparative advantage in fast deliveries, this means that:

- a. Amazon delivers orders faster than any of its competitors.
- b. Amazon delivers orders faster than Shein and Temu.
- c. Amazon does not have to give up any of its other features to deliver orders fast.
- d. Amazon has a lower opportunity cost of delivering orders fast than its competitors.

**Answer: D. Amazon would have a comparative advantage in fast deliveries if compared to its competitors, it has to give up less of its other features to deliver orders fast, that is, if it has a lower opportunity cost of delivering orders fast.**