Mirror, Mirror, on the Wall: The Danger of Imposing "Reciprocal" Tariff Rates

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ABSTRACT

Proposals to match higher foreign tariffs with higher, "reciprocal" US tariffs would be an economic and administrative nightmare. This policy would violate the long-standing US commitment to apply tariffs on a nondiscriminatory "unconditional most-favored nation" (MFN) basis, a core principle of the international trading system. Applying reciprocal rates would exponentially complicate the US tariff code, lead to higher duties on a range of imports important to US consumers and producers, and invite retaliation from major trading partners. Specifically, if applied to the United States' top 10 MFN trading partners, reciprocal tariffs would result in a nearly 10-fold increase in the number of duty lines in the US tariff code. The average US duty on imports from those nations would more than double, from 2.1 to 5.4 percent. Imposing reciprocal duties would ultimately threaten to unravel a postwar global trading system that has reduced tariffs worldwide while protecting US exporters from discrimination.

JEL codes: F13, F14, F53, F55, N72

Keywords: exports, imports, tariffs, reciprocal, free trade, international trade, trade, trading partners, World Trade Organization, free-trade agreements

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President Trump regularly laments the lack of reciprocity in US trade relations with other nations. In speeches and tweets, the president routinely highlights the fact that other countries impose higher import duties on certain products than the United States imposes on similar products. To remedy this perceived unfairness, the president has threatened to impose "mirror" or reciprocal tariffs on imports from our major trading partners that would match the duties those nations impose on the same products exported from the United States.

During a trip to Asia in 2017, he warned US trading partners "that we're going to charge the same as they're charging us. . . . We have one country that charges us 100 percent tax if we sell things into that country, and yet when they sell the same product into our country, we charge them nothing. Now, I've been against that for a long time, and you will be seeing, we do things about it."[1] Automobiles are a frequent example cited by the president: the European Union imposes a duty on imported passenger vehicles of 10 percent, and China imposes a duty of 25 percent, compared with the 2.5 percent duty imposed by the United States.

Legislative proposals have been offered that would make reciprocal duties a reality. The proposals would expand presidential power to raise the US duty imposed on a specific product category from another country when the president determines that the other country is applying a duty on the same category of good that "is significantly higher than the rate of duty imposed by the United States on that good, when imported from that country." One proposal would direct the president to negotiate with the other country to lower its duty, and if that fails, then the president could "impose a rate of duty on imports of that good

1. The White House, "Remarks by President Trump and Prime Minister Abe of Japan in Joint Press Conference | Tokyo, Japan," remarks, November 6, 2017, https://www.whitehouse.gov/briefings-statements/remarks-president-trump-prime-minister-abe-japan-joint-press-conference-tokyo-japan/.

from that country that is equal to the rate of duty applied by that country on that good," or to impose an average duty to match nontariff barriers.[2]

Matching higher foreign tariffs line for line may appeal to a superficial sense of fairness, but the president's call for reciprocal, or mirror, tariffs would be an administrative and economic nightmare in practice. It would lead to higher tariffs in the United States, imposing real costs on US consumers and producers and causing a net loss to the US economy. It would exponentially complicate the US tariff code, potentially adding tens of thousands of additional rates to an already sprawling tariff schedule. It would invite retaliation against US exports. And it would ultimately threaten to unravel a postwar global trading system that for the past 70 years has rested on a fundamental and tested principle of nondiscrimination, which has enabled the implementation of multilateral agreements that have lowered tariffs worldwide while protecting US exporters from discrimination.

This paper examines the implications for the United States and the global trading system of adopting such a reciprocal approach to setting US duty rates. It explains the historical evolution and the almost-universal adoption of the alternative approach of "unconditional most-favored nation" (MFN), which requires the uniform application of duties to all other nations equally. The paper attempts to measure the practical effects on the US tariff schedule of setting duty rates based not on the MFN principle, but on the differing rates applied by each of our major trading partners.

Imposing reciprocal duties on imports from our top 10 MFN trading partners would result in a nearly 10-fold increase in the number of duty lines imposed by the United States. Under such a regime, the number of separate US duties above zero percent that would be imposed at the six-digit level of the Harmonized Tariff Schedule (HTS) would increase from 2,916 to 28,716. The additional duties, if applied to 2017 levels of trade, would fall on $583 billion worth of imports. The average trade-weighted duty rate imposed by the US government against imports from those countries would more than double, from 2.1 to 5.4 percent, imposing damage on the US economy and inviting retaliation from our trading partners.

The United States' economic and foreign-policy interests would be better served by a recommitment to the core principle of nondiscrimination that has undergirded the successful postwar trading system.

2. Jonathan Swan, "Trump's Trade Plan That Would Blow Up the WTO," *Axios*, March 18, 2018.

WHY THE UNITED STATES AND ITS TRADING PARTNERS EMBRACE UNCONDITIONAL MFN

Although President Trump himself does not use the term, his call for mirror or reciprocal tariffs directly challenges the long-standing commitment of the US government to apply its duties on an unconditional MFN basis, or in a nondiscriminatory manner. Such a basis offers the lowest duty rate or the most favorable market access to all nations on the same terms offered to the "most-favored nation." The principle is written into Article 1 of the General Agreement on Tariffs and Trade of 1947, which provides the core principles for the 164 members of the World Trade Organization. Under the article, all members agree that "any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."[3]

Under unconditional MFN, if a nation imposes a 10 percent duty on imported widgets, it must apply the same 10 percent rate to an imported widget regardless of where it is imported from. Under this principle, nations are free to enact different duty rates than other countries on similar products, but each must apply that same rate to all like imports. Adherence to unconditional MFN would not allow the United States or any other WTO member to target another member with specific duties that did not apply to imports from all other members.

The unconditional MFN approach has been woven into US trade policy for almost a century and is based on a clear understanding of America's economic and foreign-policy interests in the world. A chief benefit of unconditional MFN is that it ensures that US producers will not face higher tariffs in a particular export market than those faced by their foreign competitors. This produces a "level playing field" among global exporters. While nations can and do maintain trade barriers that give an advantage to domestic producers of a certain category of products, under MFN they may not favor one foreign nation's exporters of those same products over another's. As a corollary benefit, the widespread practice of unconditional MFN means that when a foreign nation decides to lower its tariff rates, US exporters enjoy the full benefits of those reductions, with no special advantage or disadvantage compared to their global competition. If another nation decides to raise its duties, under unconditional MFN, US exporters will at least know they will not be put at a special disadvantage.

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3. World Trade Organization, "The General Agreement on Tariffs and Trade (GATT 1947)," accessed October 31, 2018, www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm.

The policy goal of unconditional MFN was not to force other countries to lower specific duties, but to gain fair and unbiased treatment in the global marketplace compared to other nations. As trade historian Jacob Viner observed, "The object of such a provision is to assure each of the contracting parties that its economic interests in the other country will not be discriminated against in comparison with the treatment given to the economic interests of other foreign countries."[4] Before unconditional MFN became widespread, nations were vulnerable to discrimination owing to individual reciprocity agreements that were not uniformly applied. "It was precisely to bring about equality of treatment and to eliminate the economic disadvantages, the ill-feeling, and the diplomatic bickering resulting from such discriminations that the use of the most-favored-nation clause became common," Viner concluded.[5]

For all those reasons, the US Congress officially adopted unconditional MFN as official US trade policy in 1922. In previous decades, the US government had been practicing "conditional MFN," extending lower tariffs to other nations only if those nations responded with lower tariffs on US exports. Similar to the Fair and Reciprocal Trade Act language of the Trump administration, the Tariff Act of 1897 had empowered the president to impose "penalty duties" on products imported from any nation that imposed duties on US goods the president deemed "to be reciprocally unequal and unreasonable."[6]

As the United States grew to be a dominant trading nation in the early 20th century, however, its leaders found conditional MFN to be an impediment to participating in the full benefits of global commerce. By then the major European trading nations had embraced the unconditional MFN approach, after their leaders concluded that equality of treatment was a more important goal than using trade leverage to force other nations to reduce individual tariff levels. "Constant bargaining was recognized as undesirable," William Culbertson, a member of the US Tariff Commission, observed in a 1921 essay. "The advantage of the unconditional clause was that it automatically and immediately generalized concessions made by one state to another, thus maintaining equality of treatment and making new bargains unnecessary every time two nations adjusted their tariff relations."[7]

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4. Jacob Viner, "The Most-Favored-Nation Clause in American Commercial Treaties," *Journal of Political Economy* 32, no. 1 (1924): 105.
5. Viner, "The Most-Favored-Nation Clause," 107.
6. William S. Culbertson, "Equality of Treatment among Nations and a Bargaining Tariff," *Annals of the American Academy of Political and Social Science* 94, no. 1 (1921): 162.
7. Culbertson, "Equality of Treatment among Nations," 165.

By the end of World War I, almost exactly a century ago, the United States was turning decisively in favor of a policy of nondiscrimination through the unconditional MFN principle.

In 1919, a special report by the US Tariff Commission, titled "Reciprocity and Commercial Treaties," recommended the adoption of a policy of unconditional MFN—applying the same nondiscriminatory duties on products from other nations, no matter what duties the other nations applied, as long as they applied those duties in an equally nondiscriminatory manner. The commission summarized,

> A great gain would be secured, now that the United States is committed to wide participation in world politics, if a clear and simple policy could be adopted and followed. The guiding principle might well be that of equality of treatment—a principle in accord with American ideas of the past and of the present. Equality of treatment should mean that the United States treat all countries on the same terms, and in turn require equal treatment from every other country. *So far as concerns general industrial policy and general tariff legislation, each country—the United States as well as others—should be left free to enact such measures as it deems expedient for its own welfare. But the measures adopted, whatever they be, should be carried out with the same terms and the same treatment for all nations.*[8] (italics added)

In contrast, the report presented historical evidence that the alternative policy of previous decades, that of pursuing "special arrangements" with individual countries about specific duty rates, "leads to troublesome complications."[9] Specifically, the commission concluded that "the practice of 'preference,' 'reciprocity,' and conditional most-favored nation treatment necessitates frequent and repeated special negotiations, constant bargaining, inevitable delays, actual inequality of treatment."[10]

The Tariff Commission's recommendation quickly won bipartisan support. The otherwise protectionist Fordney-McCumber tariff bill of 1922, passed by a Republican Congress and signed by Republican President Warren Harding, contained a key provision directing the president to negotiate agreements based on an unconditional MFN policy. Trade economist Douglas Irwin, in writing

8. US Tariff Commission, *Reciprocity and Commercial Treaties, 1919*, 10.
9. US Tariff Commission, *Reciprocity and Commercial Treaties*, 10.
10. US Tariff Commission, 42.

on the history of US trade policy, notes that the adoption of the unconditional MFN clause in the 1922 trade act "ultimately had far-reaching consequences for US trade policy by making it possible for the United States to participate more easily in international agreements to reduce trade barriers."[11] Underlying those agreements was the assumption that another nation's duty rates are internal matters as long as they are applied equally to like products from all other nations.

Unconditional MFN became the established practice of US trade policy in the 1930s. To begin to undo the economic and diplomatic damage of the Smoot-Hawley Tariff Act of 1930, Congress in 1934 enacted the Reciprocal Trade Agreements Act (RTAA). This legislation allowed the Roosevelt administration to negotiate bilateral trade agreements with other nations to reduce tariffs by as much as 50 percent. The agreement applied all tariff reductions on an unconditional MFN basis to other nations that also practiced nondiscrimination.

The US State Department, in a press release in April 1935 touting the RTAA, declared the following:

> This country stands ready to extend unconditionally the concessions granted in our trade agreements to all other countries which give this country non-discriminatory treatment.
>
> This policy is the opposite of retaliation. It is a policy of respectful and friendly approach to all countries to join us in establishing equality of trade treatment throughout the world. This policy implements the unconditional most-favored-nation principle, which is the most effective means of bringing about more rapidly a general reduction of trade barriers, of giving elasticity to trade arrangements, and of expanding foreign trade.[12]

The State Department release also noted the additional benefit that, when other countries adopt the unconditional MFN principle, "whenever these countries make trade agreements with other countries, we get the benefit of the lower rates."[13]

After World War II, the principle became embedded in the global trading system when the United States joined 22 other nations to establish the General

11. Douglas Irwin, *Clashing over Commerce: A History of US Trade Policy* (Chicago: University of Chicago Press, 2017), 362.
12. Franklin D. Roosevelt, "State Department Press Release on the Most-Favored-Nation Policy," press release, April 5, 1935, https://www.presidency.ucsb.edu/node/208516.
13. Roosevelt, "State Department Press Release."

Agreement on Tariffs and Trade (GATT). Signed in 1947 and implemented on January 1, 1948, the GATT committed its members to mutually negotiating lower barriers to trade while extending the lower duty rates to all other members on an unconditional MFN basis.

The global trading system founded on the unconditional MFN principle has guaranteed nondiscrimination against US exports while facilitating the long-term decline in the general level of trade barriers. Since the founding of the GATT, the number of signatory nations agreeing to abide by its principles, including unconditional MFN, has grown from the 23 original signatories to the 164 current members of the successor World Trade Organization. In the more than seven decades of the GATT, its members have engaged in a total of eight rounds of negotiations to lower tariffs and other barriers to trade, applying all the tariff reductions equally to all members.

In significant part because of those negotiations, tariff barriers among the major trading nations have declined from an average of about 22 percent on the eve of the initial GATT agreement in Geneva in 1947 to under 5 percent today, according to research by Douglas Irwin and Chad Bown at the National Bureau of Economic Research. The last three multilateral tariff agreements among GATT members—the Kennedy Round in 1967, the Tokyo Round in 1979, and the Uruguay Round in 1994—each resulted in trade-weighted tariff reductions among members of more than one-third.[14]

Because of the unconditional MFN principle, US exporters have benefited fully and equally from the enhanced market access. As other nations have agreed to lower their barriers to trade, US exporters have benefited not only from the increased access to foreign markets, but also from the guarantee that they will enjoy the same access as their export competitors in other nations. And the GATT agreements locked in those gains against backsliding by committing members to certain bound rates in each category. The Trump administration's efforts to free itself from the agreement would also free other nations from the obligation to bind their rates, exposing US exporters to both higher rates and discrimination.

One major exception to the unconditional MFN principle is the formation of free-trade areas under Article 24 of the GATT. This has allowed members of the European Union and its preceding iterations to form a common market with a common external tariff. It has allowed the United States to sign free-trade agreements (FTAs) with 20 other nations, such as the North American

14. Chad P. Bown and Douglas A. Irwin, "The GATT's Starting Point: Tariff Levels Circa 1947" (NBER Working Paper No. 21782, National Bureau of Economic Research, Cambridge, MA, December 2015).

Free Trade Agreement with Canada and Mexico and bilateral agreements with Australia and South Korea. Those agreements eliminate virtually all duties on goods flowing between the FTA countries, but the lower duties are not extended to countries outside the FTA. While this is an exception to unconditional MFN, it is far different and in many ways the opposite of what President Trump is seeking with his "mirror" tariff proposal. In the case of an FTA, the tariff adjustments are all downward and almost always to zero. If there is line-for-line reciprocity, it is to set duties at zero as part of a broad commitment to achieve free trade between the signatory countries.

THE HIGH COST OF RECIPROCAL TARIFFS

If the US government were to implement President Trump's vision of tit-for-tat duties aimed at individual trading partners, the most immediate result would be an increase in thousands of US duties on hundreds of billions of dollars of US imports. Those duties would impose real costs on American households and companies connected to global supply chains. A further negative consequence would be the exponential complication of the US HTS, creating new burdens for the administration of US Customs. Instead of one MFN duty rate per product in the US tariff code, there could be the proliferation of differing duty rates in each product category, aimed at specific countries that charge higher duties than the United States on that item. And higher and discriminatory US duties would also predictably provoke similar retaliation from the targeted trading partners.

The current US HTS contains 5,386 lines detailing specific product categories that are potentially liable for upward adjustment under the president's proposal. Those categories are designated by a six-digit HTS code that, by international agreement, is comparable to the tariff codes followed by our trading partners.[15] (Further subcategories are designated by 8-digit and 10-digit HTS codes, but those categories are not always strictly comparable between nations.)

Using tariff schedules filed with the World Trade Organization, we can compare the average tariff rate that the United States imposes within a specific six-digit product category to the average tariff rate that each of our major trading partners imposes on the same product category.[16] In some categories, the duty

15. The 2017 tariff schedule for each trading partner is reported by the World Trade Organization (WTO). See World Trade Organization, "Trade Download Facility," accessed July 30, 2018, http://tariffdata.wto.org/.
16. In order for the tariff lines to be comparable, we exclude Chapters 98 (special classification provisions) and 99 (temporary legislation; temporary modifications proclaimed pursuant to

rates are not comparable because the United States, the other trading partner, or both impose an import quota or a per-unit duty, such as 10 cents per kilogram, rather than an ad valorem percentage rate of the value.

One way to measure the potential effect of a reciprocal tariff policy would be to consider the effect it would have on tariffs imposed on imports from our largest trading partners. As measured by two-way trade in goods, America's top trading partners in 2017 were, in descending order, the European Union, China, Canada, Mexico, Japan, South Korea, India, Taiwan, Brazil, Vietnam, Malaysia, Switzerland, Singapore, and Thailand. Four of those trading partners—Canada, Mexico, South Korea, and Singapore—have entered into FTAs with the United States, rendering a mirror duty approach moot since virtually all tariffs on two-way trade have been reciprocally reduced to zero.

Of the remaining 10 trading partners, trade with the United States is conducted on an unconditional MFN basis. Each nation remains free to set independent duty rates in each category as long as those duties are not above the rates bound by its WTO agreements and applied uniformly to imports from all other WTO members. The potential impact of a mirror duty approach can be measured by comparing the average US duty rate in each six-digit HTS category to the rate applied by each of the trading partners. The potential impact on actual trade flows can be measured by applying the adjusted "mirror" rates to the value of US imports in each category from each of our trading partners.[17]

Focusing on the top 10 MFN trading partners will capture a large majority of the impact of adopting a reciprocal tariff approach. Those 10 account for 58 percent of US goods imported for consumption in 2017. If we exclude the more than one-third of US imports that arrive from FTA partners, the 10 trading partners analyzed account for 87 percent of total US imports from non-FTA partners that could potentially be targets of the reciprocal tariff approach.[18]

If the spirit and letter of the proposed Fair and Reciprocal Trade legislative outline were to be fully applied to mirror every higher tariff imposed by our 10

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trade agreements legislation; additional import restrictions proclaimed pursuant to section 22 of the Agricultural Adjustment Act, as amended). These tariff lines are not reported by the WTO. Additionally, we exclude 10 six-digit tariff lines: 293980, 440110, 440310, 440320, 440392, 440610, 440690, 440710, 441232, and 880000. These tariff lines are also not reported by the WTO.

17. The 2017 trade numbers are as reported by the US Census Bureau, "U.S. Import and Export Merchandise Trade Statistics," accessed October 31, 2018, https://usatrade.census.gov. The definition of imports in this analysis is imports for consumption. This excludes imports that are subsequently reexported and may thus not be ultimately liable for US duty payment. US exports for each category are defined as "domestic exports," which includes only products that are grown or made in the United States. This category also excludes imports to the United States that are then reexported.

18. US Census Bureau, "U.S. Import and Export Merchandise Trade Statistics."

largest non-FTA trading partners, the United States would need to raise 25,800 separate duties at the six-digit HTS level. That would mark a 6-fold increase from the current 5,816 separate duty lines and a 10-fold increase in the 2,916 average duty rates that are above zero. The higher duties would apply to $583 billion in imports to the United States, raising the duties on 45 percent of imports from the affected trading partners.

The trade-weighted duty the United States imposes on imports from the 10 nations would more than double if the reciprocal approach were fully adopted, from 2.1 percent to 5.4 percent.[19] Ironically, the new duty rate would be higher than the 3.9 percent trade-weighted duty that those same trading partners currently impose on US exports to their domestic markets (see table 1). The reason the average US "reciprocal" rate would exceed the foreign rate is because the Trump proposal would seek only to adjust rates upward when the foreign rate is higher but not to adjust the US rate downward when the foreign rate is lower. If broadly applied, this one-sided approach makes it likely that the average US tariff will actually rise above that of many of our trading partners. The United States would cease to be a relatively low-duty country compared to its major trading partners.[20]

Among the categories of imports that would be hit the hardest by reciprocal tariffs would be passenger vehicles, auto and truck parts, footwear, wooden furniture, car and truck tires, and certain food items such as coffee from Brazil and cashew nuts from Vietnam. Box 1 describes in more detail the impact of a reciprocal tariff policy on imports from each of the major non-FTA trading partners.

The reciprocal approach to setting duties is almost guaranteed to result in a higher general level of US duties, at least in the short run. That's because whatever adjustments occur are all in the direction of higher duties, since the administration has not proposed to adjust any duties downward to match lower duties abroad.

19. The average trade-weighted duty rate is measured by dividing the amount of duties collected by the value of total imports. To calculate the potential impact of mirror duties, the higher rate in a specific six-digit HTS category is applied to the current value of imports for consumption in that category to approximate the additional duties that would be collected. In most categories, higher duties can be assumed to result in a lower total value of imports, assuming the price elasticity of the imports is positive.

20. The number of higher duties imposed by the United States would increase exponentially if the mirror tariff policy were applied against the more than 130 other WTO members that have not entered into FTAs with the United States. The average trade-weighted US duty would increase even more if mirror duties were applied against all six-digit HTS categories where the administration determines that a foreign trading partner is imposing the ad valorem equivalent of an import quota or per-item duty that is higher than the current US duty on the same category of goods.

TABLE 1. THE IMPACT OF IMPOSING RECIPROCAL DUTIES AGAINST TOP US TRADING PARTNERS (MILLIONS OF DOLLARS)

	US exports	US imports	current US duties	mirror duty lines	mirror duty imports	total mirror duties	current US duties (percent)	mirror duties (percent)	duties on US exports	duties on US exports (percent)
EU	$203,215	$404,176	$6,036	2,419	$179,767	$12,771	1.5	3.2	$4,261	2.1
China	$102,040	$497,000	$11,943	4,186	$278,286	$35,131	2.4	7.1	$7,394	7.2
Japan	$54,289	$132,231	$2,178	1,290	$4,166	$2,307	1.6	1.7	$1,384	2.5
India	$18,301	$47,852	$1,507	4,384	$39,325	$5,896	3.1	12.3	$1,738	9.5
Taiwan	$20,286	$40,699	$631	2,493	$15,771	$1,331	1.6	3.3	$437	2.2
Brazil	$27,122	$25,610	$501	4,617	$16,780	$2,113	2.0	8.3	$1,972	7.3
Vietnam	$6,645	$45,781	$2,604	2,718	$32,665	$7,178	5.7	15.7	$290	4.4
Malaysia	$9,417	$36,353	$237	1,572	$3,686	$672	0.7	1.8	$227	2.4
Switzerland	$14,738	$30,972	$275	0	$0	$275	0.9	0.9	$0	0.0
Thailand	$8,526	$30,683	$671	2,121	$12,565	$2,242	2.2	7.3	$269	3.2
Total	**$464,579**	**$1,291,357**	**$26,583**	**25,800**	**$583,011**	**$69,916**	**2.1**	**5.4**	**$17,972**	**3.9**

Source: Author's calculations based on World Trade Organization, "Trade Download Facility," accessed July 30, 2018, http://tariffdata.wto.org/.

BOX 1. IMPACT OF MIRROR TARIFFS ON TRADE WITH TOP US TRADING PARTNERS

European Union: Of the 5,386 import categories at the six-digit HTS level, the European Union imposes a higher average duty than the United States on 2,419 lines. If US duties were adjusted upward in each of those categories to match the higher EU duties, the effective duty rate imposed by the United States on goods imported from the European Union would increase from 1.5 percent to 3.2 percent (compared to an effective duty rate imposed by the European Union on US exports of 2.1 percent). The biggest impact of reciprocal tariffs would be on imports of passenger vehicles (HTS 8703), where the US duty rate would jump from 2.5 to 10 percent on the $46.5 billion worth of goods imported for US consumption in 2017. US duties would also jump from zero or near zero to 2.8 percent on $12.1 billion of imported turbo jets (HTS 8411) and $13.7 billion of imported aircraft parts (HTS 8802 and 8803) from the European Union.

China: In trade with China, which in 2017 was just behind the European Union in two-way goods trade, the number of six-digit duty lines the United States would need to adjust upward to mirror higher Chinese duties would be 4,186. The average duty rate the United States imposes on imports from China would nearly triple, from 2.4 percent to 7.1 percent (compared to the average Chinese duty rate on its imports from the United States of 7.2 percent). The hardest-hit categories would include TV monitors and reception apparatuses (HTS 8528), where the average duty rate would go from 1.3 to 22.3 percent on $11.4 billion in imports; and auto and truck parts (HTS 8708), where the average duty would increase from 1.1 to 10.3 percent on $9.2 billion in imports. Duties on passenger vehicles imported from China would jump 10-fold from 2.5 to 25 percent, but the higher duties would fall on a relatively small total of $1.8 billion in imports.

Japan: While Japan has been the target of complaints about market access, its tariff rates are relatively low. The Japanese duty rate is higher than the US rate on 1,290 of the six-digit lines where duty rates are comparable. If the United States were to match the Japanese duties in each of those categories, the average US tariff rate would increase only slightly, from 1.6 to 1.7 percent, mostly because the rates would go up in categories where the value of US imports from Japan are small. (The average Japanese duty rate on what it imports from the United States is 2.5 percent.) One of the steepest duty increases from imposing mirror US rates would be on beef and beef products (HTS 0201 and 0202) imported from Japan, where the duty rate would jump from 13.5 to 38.5 percent. The economic impact would be small, however, because the total value of US imports from Japan in that category is only $21 million, compared to the $1.5 billion the United States exports to Japan in the same category. In the politically sensitive category of passenger vehicles, the Japanese duty in that category (HTS 8703) is zero, so no mirror duty would be imposed.

India: India imposes higher duties than the United States on 4,384 six-digit lines. If the US government were to match all of India's higher duties, the average duty rate on Indian imports would nearly quadruple, from 3.1 to 12.3 percent (compared to India's average duty rate on its imports from the United States of 9.5 percent). Under a policy of mirror duties, the US duty rate would jump from 1.1 to 10.3 percent on $10.7 billion worth of imported jewelry and precious metals (HTS 7010 and 7011) and from 0 to 30 percent on $2 billion of imported frozen shrimp. As for motorcycles (HTS 8711), the category that has caught the attention of President Trump, the duty would increase from 0 to 100 percent, but on a relatively small $16 million in imported motorcycles. As for passenger cars, the rate would jump from 2.5 to 60 percent on $113 million in imports. While the Indian duties are strikingly higher in both categories, the country does not have much at stake as an exporter to the United States.

(continued)

BOX 1. IMPACT OF MIRROR TARIFFS ON TRADE WITH TOP US TRADING PARTNERS (CONTINUED)

Taiwan: Taiwan imposes higher duties than the United States on 2,493 categories at the six-digit HTS level. If the United States were to match each of those higher duties, the average duty rate on imports from Taiwan would roughly double, from 1.6 to 3.3 percent, similar to the impact on our trade with the European Union. (Taiwan's average duty rate on what it imports from the United States is 2.2 percent.) Categories of US imports that would be most affected by a reciprocal policy toward Taiwan are frozen fish fillets (HTS 030489), where the duty would jump from zero to 25.7 percent on $72 million of imports; metal nuts, screws, and rivets (HTS 7318), where the average duty rate would climb from 1.7 to 5.0 percent on $845 million of imports; and auto and truck parts (HTS 8709), where the average duty rate would go from 1.6 to 11.4 percent on $1.6 billion in imports.

Brazil: Brazil imposes higher duties than the United States on 4,617 categories at the six-digit level. If the United States were to match the Brazilian duties in each of those lines, the weighted average duty imposed on Brazil's imports to the United States would more than quadruple, from 2.0 to 8.3 percent (compared to Brazil's average duty rate on its imports from the United States of 7.3 percent.) The biggest impact of a reciprocal trade policy toward Brazil would be on coffee, where the duty would increase from 0 to 22.5 percent on $1 billion in imports to the United States. The duty would increase from 0 to 8 percent on $1.1 billion in imported iron and steel products (HTS 7207), and from 2.5 to 35 percent on $42 million in imported passenger cars.

Vietnam: Vietnam imposes higher duties on 2,718 categories of imports at the six-digit HTS level. If the United States were to fully implement mirror tariffs in each of those categories, the average US duty rate on imports from Vietnam would nearly triple, from an already high 5.7 percent to 15.7 percent (compared to the average duty rate Vietnam imposes on imports from the United States of 4.4 percent). The Vietnamese export sectors where reciprocal tariffs would fall the hardest include footwear (HTS 6403 and 6404), where the average duty would climb from 13 percent to 30 percent on $4.3 billion in imports; and wooden furniture (HTS 9403), where the duty would spike from zero to 24 percent on $2.9 billion in imports. For American consumers of cashew nuts (HTS 080132), the duty would rise from 0 to 25 percent on $1.2 billion in imports from Vietnam.

Malaysia: Malaysia imposes higher duties than does the United States on 1,572 categories of goods. If the United States were to match each of those duties, its average duty rate on imports from Malaysia would more than double, from 0.7 percent to 1.8 percent (compared to Malaysia's average duty rate on imports from the United States of 2.4 percent.) The biggest impact of reciprocal duties would fall on vacuum cleaners (HTS 8508), where the duty would rise from 0 to 20 percent on $271 million of imports, and on a range of kitchen appliances, including microwaves and coffeemakers (HTS 8516), where the average duty would jump from 2.9 percent to 20 percent on $354 million in imports from Malaysia.

Switzerland: Switzerland's tariff schedule as reported to the WTO is strikingly different from that of the other major US trading partners. The Swiss government appears to use a much higher share of nontariff barriers to imports, covering about two-thirds of the lines, which makes the categories noncomparable for our analysis. The categories that do apply straight ad valorem duty rates are all reported as zero. That means there are zero duty lines that would require an upward adjustment of US duties, and thus under a mirror approach the average US duty on imports from Switzerland would remain 0.9 percent.

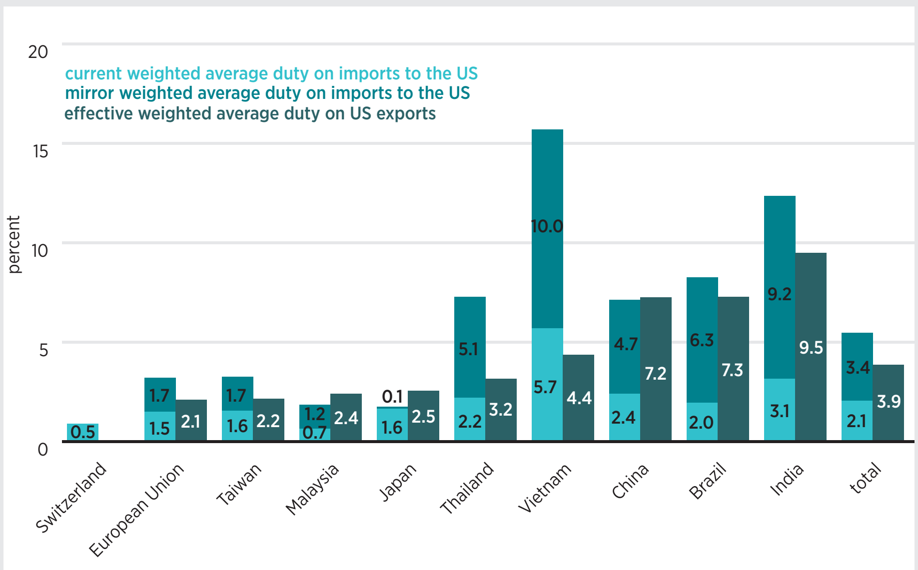
(continued)

BOX 1. IMPACT OF MIRROR TARIFFS ON TRADE WITH TOP US TRADING PARTNERS (*CONTINUED*)

Thailand: Thailand imposes higher duties than the United States on 2,121 categories. If the United States were to raise its duties to match the average Thai duty in each of those categories, the average rate on Thai imports would more than triple, from 2.2 to 7.3 percent (compared to the Thai duty on imports from the United States of 3.1 percent). The biggest targets for reciprocal tariffs against Thailand would all be transportation-related goods: The average US duty rate would jump from 2.5 to 72.7 percent on $212 million of imported motor vehicles; from 1 to 60 percent on $327 million of imported motorcycles; from 1.1 to 27.3 percent on $433 million in imported auto and truck parts; and from 3.7 percent to 10 percent on $1.7 billion of imported car and truck tires (HTS 401110 and 401120).

See figure 1 for the average duty-rate impact on each of the 10 trading partners.

FIGURE 1. INCREASES IN WEIGHTED AVERAGE DUTIES AFTER MIRROR TARIFFS ARE INTRODUCED



Source: Author's calculations based on World Trade Organization, "Trade Download Facility."

The higher duties would raise revenue for the federal government and may protect some domestic producers from competition, but those gains would be more than offset by the cost to the economy of higher prices imposed on consumers and import-consuming industries and the loss of productivity as resources shift to less competitive industries.

Threatening to impose reciprocal duties on other nations could, in theory, produce the positive result of encouraging those nations to lower their duties to a level at or below what the US government imposes on the same category of goods, but the prospects of such a positive reaction are uncertain at best. The promise of lower tariffs abroad must be weighed against the certain damage the US economy would suffer from actually imposing the mirror tariffs. If other countries do not lower their tariffs in response, the US economy will be burdened with its own higher tariffs with no gain from increased market access abroad. The damage could be compounded if other nations choose to retaliate by imposing higher duties on goods exported from the United States.[21] Retaliatory duties would be especially harmful because they would be targeted exclusively at imports from the United States, subjecting US producers to growing discrimination in competitive global markets.

Behind the temptation to impose mirror or reciprocal duties is the mistaken belief that higher tariffs in other countries only impose a cost on American exporters but not on the country imposing the tariffs. Higher duties abroad do in fact reduce the ability of certain American companies to sell abroad, but those same duties impose real damage on the economic interests of the higher-tariff country. This is consistent with basic economic welfare analysis going back to Adam Smith and *The Wealth of Nations* (1776).

Recent analysis of the impact of tariffs confirms that the nations that impose higher duties on their imports suffer economic loss. In an aptly titled analysis, "Tariffs Do More Harm Than Good at Home," the chief economist of the International Monetary Fund (IMF), Maurice Obstfeld, summarizes the research of the IMF and concludes that higher duties do not stimulate an increase in overall production in the domestic economy. In fact, the principal victim of higher tariffs is the country that imposes them. As Obstfeld concludes, "While [tariffs] may give some relief to industries and workers that directly compete with the affected imports, they will be broadly contractionary, reducing output, investment, and employment in the whole economy. These negative effects follow even if trade partners do not retaliate, although if they did, the outcome would be even worse."[22]

A detailed study from the National Bureau of Economic Research of more than 150 countries covering a half-century period from 1963 to 2014 finds a significant negative impact on the economies of countries that raise tariff rates.

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21. Using the same datasets for duty rates and trade, we can calculate the potential effect of the top 10 MFN trading partners of the United States applying the same reciprocal approach to imports from the United States. For those same 10 trading partners, foreign duties would increase across 11,220 six-digit import categories where the US duty rate is higher than the comparable rate imposed by a trading partner. Those higher foreign duties would fall on $73.7 billion of US exports, raising the average effective duty faced by US exporters in those top markets from 3.9 to 4.4 percent. Especially vulnerable to reciprocal tariffs would be US exports of ground nuts (HTS 1202 and 2008), tobacco (HTS 2403), light- and medium-weight oils (HTS 2710), and gold and jewelry (HTS 7108 and 7113), where US duties are consistently higher—often much higher—than the duties imposed by the United States' trading partners in those same HTS categories.
22. Maurice Obstfeld, "Tariffs Do More Harm Than Good at Home," *IMFBlog*, September 8, 2016.

Specifically, the study finds that tariff increases lead in the medium term to statistically significant declines in output and productivity and negative impacts on employment. Of what may be special interest to the Trump administration, the authors find that tariff increases are especially damaging for higher-income nations with expanding economies. Also potentially of interest to the administration, the authors find no significant effect from higher tariffs on the imposing nation's trade balance: "In contrast, we do not find an improvement in the trade balance after tariffs rise, plausibly reflecting our finding that the real exchange rate tends to appreciate as a result of higher tariffs."[23]

Beyond the direct economic impact, a mirror tariff policy would be a gross violation of the United States' WTO commitments. If the United States were to cease to apply its tariff schedule on an unconditional MFN basis, as required by Article 1 of the WTO's underlying GATT charter, US exporters would be exposed to a barrage of rising and discriminatory tariffs from trading nations around the world. Indeed, US membership in the WTO itself could be called into question, since the United States would be failing to fulfill its most basic commitments. Its access to the dispute settlement mechanism, and the protection of US commercial interests, would be forfeited.

SETTING US TARIFF RATES IN THE UNITED STATES' NATIONAL INTEREST

Those who support a policy of lowering and eliminating tariffs at home and abroad should take seriously the Trump administration's threats to seek to impose reciprocal duties on US trading partners. Previous administration statements about imposing duties on imported steel and aluminum and on imported goods from China have become reality. The administration's director of the Office of Trade and Manufacturing Policy, Peter Navarro, said as recently as November 2018, "We're not reluctant at all about imposing tariffs on other countries when they impose higher tariffs on us. It's madness not to do so."[24]

Instead of threatening reciprocal tariffs, the standing policy of the US government should be to pursue economic policies that are in the best interests

23. Davide Furceri, Swarnali A. Hannan, Jonathan D. Ostry, and Andrew K. Rose, "Macroeconomic Consequences of Tariffs" (NBER Working Paper No. 25402, National Bureau of Economic Research, Cambridge, MA, December 2018).
24. Center for Strategic & International Studies, "Economic Security as National Security: A Discussion with Dr. Peter Navarro," transcript, November 13, 2018, https://www.csis.org/analysis/economic-security-national-security-discussion-dr-peter-navarro.

of US residents as a whole, regardless of what policies other nations choose to pursue. Free trade, or the lowest possible US barriers to trade, is just such a policy. Higher duties in other countries do impose a cost on the US economy in terms of lost export opportunities, but raising US barriers in response to foreign barriers only compounds the cost. Whether foreign trade barriers are high or low, US economic welfare is enhanced by keeping our barriers low. America's fundamental economic well-being does not depend on the policies pursued by other nations, but overwhelmingly on the policies pursued by the US government.

Just as free trade is its own reward, imposing higher duties contains its own punishment. Nations that maintain a higher duty rate on a specific product category than the US rate are imposing inefficiencies and economic losses on their own economies and people. Their higher duties do impose a cost on US producers of that product, but the principal victims of the higher tariffs are the people in the country that imposes them. The US government does not need to impose "penalty duties" on nations that maintain higher duties than we do; those higher duties are their own penalty.

The United States has pursued unconditional MFN as a principle of its trade policy for nearly a century, with measurable positive results for millions of American consumers and workers, the US economy as a whole, and US foreign relations. Through eight rounds of multilateral negotiations dating back to the 1940s, average global duties have fallen dramatically. The principle of nondiscrimination has enabled the United States to engage and lead the world in mutual negotiations to lower barriers to trade, both in the United States and among US major export markets. The MFN principle has promoted efficiency of production by encouraging the sourcing of goods and services from the most efficient producers across the multilateral trading system.[25] The system has guaranteed that US exporters enjoy the full benefit of those lower barriers when exporting to all other MFN partner nations.

The United States also remains free under the postwar trading system to pursue trade-expanding regional and bilateral agreements that reduce duties to zero on virtually all trade between the parties. The Trans-Pacific Partnership, for example, from which the Trump administration withdrew the United States in 2017, would have eliminated almost all duties between the United States and 11 other Pacific Rim nations, including our major MFN trading partners Japan,

25. Wisarut Suwanprasert, "The Role of the Most Favored Nation Principle of the GATT/WTO in the New Trade Model" (paper presentation, Fall 2016 Midwest International Trade Conference, West Lafayette, IN, December 2, 2016).

Vietnam, and Malaysia. By definition, FTAs make “mirror,” zero-for-zero duties the norm with US FTA partners. Instead of threatening to impose higher, reciprocal duties on US MFN trading partners, the Trump administration should be seeking to build on the success of the 14 FTAs the United States has already entered, to rejoin the reconfigured Trans-Pacific Partnership, and to negotiate new agreements that aim to reduce all duties to zero with the partner nations while reducing and eliminating other, nontariff barriers to trade.

Abandoning the principle of unconditional MFN and the successful global trading system based upon it would be mistake of historic proportions. Such a policy error would almost certainly reverse the decades-long trend of declining trade barriers, disturb the relative commercial peace that has prevailed in recent decades, and inflict needless economic pain on American producers and consumers. Instead, the US government should reaffirm its commitment to nondiscriminatory trade policy while cooperating with US trading partners to lower trade barriers abroad and at home.

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Daniel Griswold is a senior research fellow and codirector of the Trade and Immigration project at the Mercatus Center at George Mason University. Griswold is a nationally recognized expert on trade and immigration policy. He previously served as president of the National Association of Foreign-Trade Zones (NAFTZ) and as director of trade and immigration studies for the Cato Institute in Washington, DC. The author of the 2009 book *Mad about Trade: Why Main Street America Should Embrace Globalization*, Griswold has testified before congressional committees, commented for TV and radio, authored numerous studies and articles, and addressed business and trade groups across the country and around the world. He holds a bachelor's degree in journalism from the University of Wisconsin–Madison and a master's in the politics of the world economy from the London School of Economics and Political Science.

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