

# 'Reciprocal' tariffs: what's in a word?

Trump's definition does not reflect reciprocity as applied in past multilateral trade negotiations or in equality of tariffs

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On 13 February 2025, President Trump released a memorandum announcing his intention to impose *"reciprocal tariffs"* under the Fair and Reciprocal Plan<sup>1</sup> (FRP). The plan does not operate under a reasonable definition of reciprocity, is illegal under World Trade Organisation (WTO) law, would damage both the United States and its trading partners and could trigger reactions that would bring an end to the international trading system as we know it.

It is not yet clear what measures will be implemented, but the memorandum leaves no doubt as to its rationale – lack of reciprocity as interpreted by the new US administration. The memorandum states that this lack of reciprocity *"is one source of our country's large and persistent annual trade deficit in goods."*

The basic idea is that the US has been subject to various trade practices that it does not employ. The memorandum references a wide range of measures ranging from tariffs to taxes to import volumes which have supposedly caused US trade deficits. Reciprocal tariffs are intended to counteract these measures, eliminating the trade deficit.

There are three problems with this line of argument. First, the US trade deficit has little if anything to do with foreign tariffs or other trade practices that the US intends to punish – a point repeatedly made by economists since the first Trump administration (Gagnon, 2017). Second, the practices that the US administration intends to punish include practices that are non-discriminatory. The memorandum references VAT as an unfair practice, despite the fact that this is an indirect tax applied by over 170 countries.

As the Financial Times' Alan Beattie points out, this suggests that the Trump administration is inventing a new tool *"to impose whatever tariffs it likes for whatever reason it can make up on a highly flexible, legal basis"*<sup>2</sup>. Third, Trump's understanding of 'reciprocity' runs counter to the use of 'reciprocity' in any sense of the world, including the sense in which reciprocity has been used in the creation of the international trading system. If applied, it would destroy that system.

### **The meaning of reciprocity**

Reciprocity is a feature of the WTO arsenal. It is embedded in Article 22.4 of the Dispute Settlement Understanding, where it provides the benchmark for calculating authorised tariff retaliation if the author of an illegal act refuses to bring its measures into compliance with its obligations following a ruling by a WTO adjudicating body. Reciprocity is also the basis for a trade agreement in the first place and is the legal benchmark for calculating the compensation to be paid in case a WTO member wants to re-consider the agreement (General Agreement on Trade and Tariffs Article XXVIII).

Nevertheless, it is not *"specific"* reciprocity, as Keohane (1986) put it, that forms the basis of agreements in a multilateral forum like the WTO. It is *"diffuse"* reciprocity. Specific reciprocity is best suited to bilateral agreements where equivalent treatment can be better measured. Diffuse reciprocity is better suited to multilateral agreements, like the WTO. Various trading nations participate, and one country's tariff reductions positively or negatively affect nations other than the one that negotiated the tariff reduction. This is why rules including 'most-favoured-nation' and 'national treatment' exist and are applied generally. These rules are hard to reconcile with specific reciprocity and are quite similar to diffuse reciprocity.

So, while reciprocity is a fundamental principle of the world trading system,<sup>3</sup> it is never understood in terms of total numerical equivalence. As the former Director-General of the General Agreement on Tariffs and Trade (GATT), Arthur Dunkel, put it: *"Reciprocity cannot be determined exactly, it can only be agreed upon."*<sup>4</sup>

This was as true when the original GATT was negotiated (1946-1947) as it is now. Irwin *et al* (2008) recount an episode between the US negotiator, Bill Clayton, and his UK counterpart, Sir Stafford Cripps. The key request of the US during the GATT negotiation was for the UK to abandon its Imperial Preferences (a system of tariff

reduction across the British Commonwealth) as a *quid pro quo* for the military aid it received during WWII under the US Lend-Lease program. Cripps refused to concede.

An exasperated Clayton kept sending messages to Washington DC, claiming that reciprocity was not being respected. The response was unambiguous: the signature of the GATT was the priority, because the GATT was not just a trade agreement, but a security agreement. Its architects saw reciprocity not only in the tariff agreement, but also in the establishment of the liberal trade order.

Current tariffs embedded in WTO law were agreed on during the 1986-1994 Uruguay Round of multilateral trade negotiations. These tariffs continue to differ across countries because of differing sectoral sensitivities and interests. It would be quite remarkable for the US, the entity with the most bargaining power, to claim that it was coerced into signing to an unfair agreement. The US promised to cap its duties at a certain level (having received reciprocal concessions from its trading partners) and to apply the capped duties in non-discriminatory terms to goods regardless of their origin<sup>5</sup>. The FRP would violate this agreement.

The US received not only (reciprocal) tariff concessions, but also non-tariff concessions in return for its tariff reductions. During the Uruguay Round negotiations, developing countries agreed to a common minimum protection of intellectual property, a net welfare loss for them (Srinivasan, 1998) as well as new multilateral rules regarding trade in services.

Furthermore, the intentions of the FRP seem neither fair nor reciprocal even if one were to apply a bilateral and solely tariff-based standard of fairness. The 13 February factsheet does not convey the impression that the Trump Administration intends to reduce its tariffs where third countries have a lower tariff than the US<sup>6</sup>. For instance, the US tariff on pick-up trucks is 25% *ad valorem*, whereas the EU tariff on the same product is 10% and the Japanese tariff 0%. While the US would raise its tariffs to match its trading partners', it will not lower them when required to arrive at perfect reciprocity.

In short, the US administration's plan has nothing to do with reciprocity in either the sense in which it was applied in past multilateral trade negotiations – as a broad give and take involving many product lines and sectors – or in the sense of establishing equality of tariffs for all products.

### **What does the FRP mean for trading nations?**

For the US, reciprocity as defined by the FRP would entail a loss of sovereignty, as US tariff policy would be reduced to mimicking trade measures decided and implemented elsewhere. The scheme would also be prohibitively costly to implement, as the US Administration will have to follow trade and tax practices around the globe and reproduce them<sup>7</sup>.

The FRP is not bad news for only the US. Evenett (2025) uses a series of indicators approximating the criteria for retaliation embedded in the FRP and ranks targets through a system of flags: the higher the number of flags, the more likely it is that the US will raise tariffs against them. Korea tops the list with five flags, followed by Canada, China, India and Japan with four flags each, Brazil, the EU, Indonesia, Kenya, Malaysia, Mexico and Thailand follow with three. Thirty-five more countries were awarded two flags each, and 68 were awarded one flag.

What if some of the flagged countries retaliated once hit by the FRP? Judging from recent experience, we can be almost certain that China will not sit back. The EU is equally unlikely to remain passive. Far from equalising tariffs at their lowest bilateral level, the FRP would achieve the opposite: it would trigger tariff wars leading to both much lower export demand and much higher import prices (with ensuing welfare consequences for the trading nations). When the WTO was established, one of its foundational ideas was to constrain unilateral punishment (Ethier, 2006). The Trump administration clearly does not see these constraints as relevant.

### **What does the FRP mean for the WTO?**

Handley and Limão (2017) have argued that the essential purpose of trade agreements like those of the WTO is to provide certainty regarding the conduct of future transactions. The FRP runs counter to this purpose, because it (perhaps deliberately) contributes to uncertainty and potentially chaos.

The FRP legislation is a direct assault on multilateralism, giving the US the right to impose tariffs on any country based on its perception of what is fair. It claims that it is meant to promote (in fact, re-install) reciprocity at the heart of international trade relations. But as argued above, the very outcome of the Uruguay round was sealed and

approved (including by the US) because it was considered satisfactory, and presumably, balanced.

Things have of course changed since 1994. But the architects of the world trading regime anticipated changes. They provided for a multilateral process to be followed in order to unilaterally provoke a re-negotiation of an agreed upon outcome upon the payment of compensation (Article XXVIII of GATT). They equally provided for the possibility to initiate a new round of (tariff) negotiations in order to address shortcomings from the previous rounds (Article XXVIII *bis* of GATT). This form of establishing or restoring reciprocity clearly does not interest President Trump.

This is not the first time a US Administration has taken a 'reciprocitarian' approach. Bhagwati and Irwin (1987) reference the influence of William S. Culbertson, a reciprocitarian and US diplomat, during the term of Cordell Hull as Secretary of State in the Roosevelt administration. Reciprocitarianism then made a return during the Reagan years. The targets of the US rhetoric at the time were the successful Southeast Asian nations, particularly Japan. Eventually this dissipated, following the signature of the 1985 Plaza Accords, which appreciated the value of the Japanese yen. Now the target is global (the world trading system), and the rhetoric of Trump II shows no signs of abating.

The resilience of the WTO framework is being severely tested. Some analysts have expressed very pessimistic views. In a forthcoming paper, Carvalho *et al* (2025) argue that, unlike a hegemon (as understood by Kindleberger, 1973), who is willing to assume the requisite cost to establish and preserve a rules-based system, dominant players who face competition have no incentives to behave as a hegemon. They might want to free-ride on others' efforts (in the unlikely scenario that one dominant player goes ahead and behaves as hegemon) but this is as far as it goes.

It is a long time since the US has acted as a hegemon. We cannot realistically expect the US to lead an effort to bring order to today's crumbling international infrastructure. Post WWII, the US was responsible for almost half the world's GDP. This is no longer the case. China is approaching the US in terms of GDP, and the EU is not that far behind. If Carvalho *et al* (2025) are proven right, we might be witnessing the last days of the post-WWII international liberal order, as we can discount a scenario where the major global powers including the US, EU and China join forces and work together to establish a mutually acceptable order. Trump II has shown no signs of wanting to collaborate with the EU, much less with China.

Trump II initiatives will test the WTO even more, and it remains to be seen if it will survive substantively. Members' attitudes matter. In this regard, the EU has particular responsibility.

*For helpful discussions and comments, I am indebted to Jagdish Bhagwati, Ignacio García-Bercero, Henrik Horn, Doug Irwin, Damien J. Neven, Emanuel Ornelas, André Sapir, Alan O. Sykes, and Jeromin Zettelmeyer*

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## Endnotes

1. See <https://www.whitehouse.gov/articles/2025/02/reciprocal-trade-and-tariffs/>
2. Alan Beattie, 'Trump's risible "reciprocal" tariffs', Financial Times, 17 February 2025, <https://www.ft.com/content/dff04f67-f959-4c7a-bfcd-58fbb54bfbee>
3. While some economists may argue that countries that cannot affect terms of trade should liberalize unilaterally, the creators of the system understood that this was not on the political cards, see Dam (2005).
4. GATT Press Release 1312, 5 March 1982.
5. And of course, the final outcome of the Uruguay round was not limited to a tariff bargain, as it included a number of agreements dealing with behind-the-border regulation.
6. See <https://www.whitehouse.gov/fact-sheets/2025/02/fact-sheet-president-donald-j-trump-announces-fair-and-reciprocal-plan-on-trade/>
7. See Douglas A. Irwin, 'Reciprocal Tariffs Make no Sense', Wall Street Journal, 13 February 2025, available at <https://www.wsj.com/opinion/reciprocal-tariffs-make-no-sense-duties-trade-economy-policy-china-d682c356>



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