



# **A Critical Analysis of the Reciprocal Tariff Misconceptions in U.S. Economic Policy**

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**Abstract:** This research critically examines the reciprocal tariff model employed by the U.S. Executive Office, which posits that imposing tariffs equivalent to bilateral trade deficits can eliminate those imbalances. The study claims this model is methodically defective, as it overlooks key economic factors such as trade elasticities, global value chains, and broader macroeconomic factors of trade flows. Through a theoretical critique backed by experiential literature, the paper uncovers how the model twists the nature of trade deficits and provides policy misdirection. It further explores the consequences for Canada—given its close economic ties with the U.S.—and the broader global trading system, particularly about multilateral norms and retaliatory risks. Methodological limitations such as data opacity and the absence of dynamic modeling are also addressed. The study underlines the need for evidence-based, transparent, and multifaceted methods in trade policy, offering hope for a more precise understanding of modern trade dynamics and a structure for re-evaluating protectionist or nationalist narratives in U.S. economic policy.

**Keywords:** reciprocal tariffs, trade policy, U.S. Executive Office, economic rhetoric, WTO, trade imbalances

## **I.INTRODUCTION**

Trade procedures, particularly those involving tariffs, are vital tools governments use to regulate international commerce. The U.S. Executive Office plays a significant role in shaping and disseminating these policies, especially regarding reciprocal tariff calculations. However, the methods to justify these tariff figures often lead to tricky understandings. This paper aims to critically analyze the discrepancies in the U.S. Executive Office's presentation of reciprocal tariff calculations, focusing on the broader implications of these discrepancies for domestic industries and international relations. By examining the political, economic, and technological aspects of tariff calculation and its display, this study seeks to find the elements contributing to sensed inaccuracies and underscore the possible outcomes for policymakers and stakeholders. The urgency and significance of this research cannot be overstated, given its potential to shape future trade policies.

This study is notably timely, given the increasing globalization of commerce and the growing scrutiny of U.S. trade rules. Proper tariff calculation and transparent communication are desirable and essential for fair trade rules and trust between trading members. Through this research, the paper will delve into the various layers of intricacy in reciprocal tariff display, examining the precision of the data, the clearness of its communication, and the political reasons that may impact its image. Finally, this study aims to improve tariff calculations' transparency and reliability within the U.S. Executive Office, ensuring more fair-trade practices in the future. Figure 1 below shows the balancing clarity and misleading information in tariff presentations.

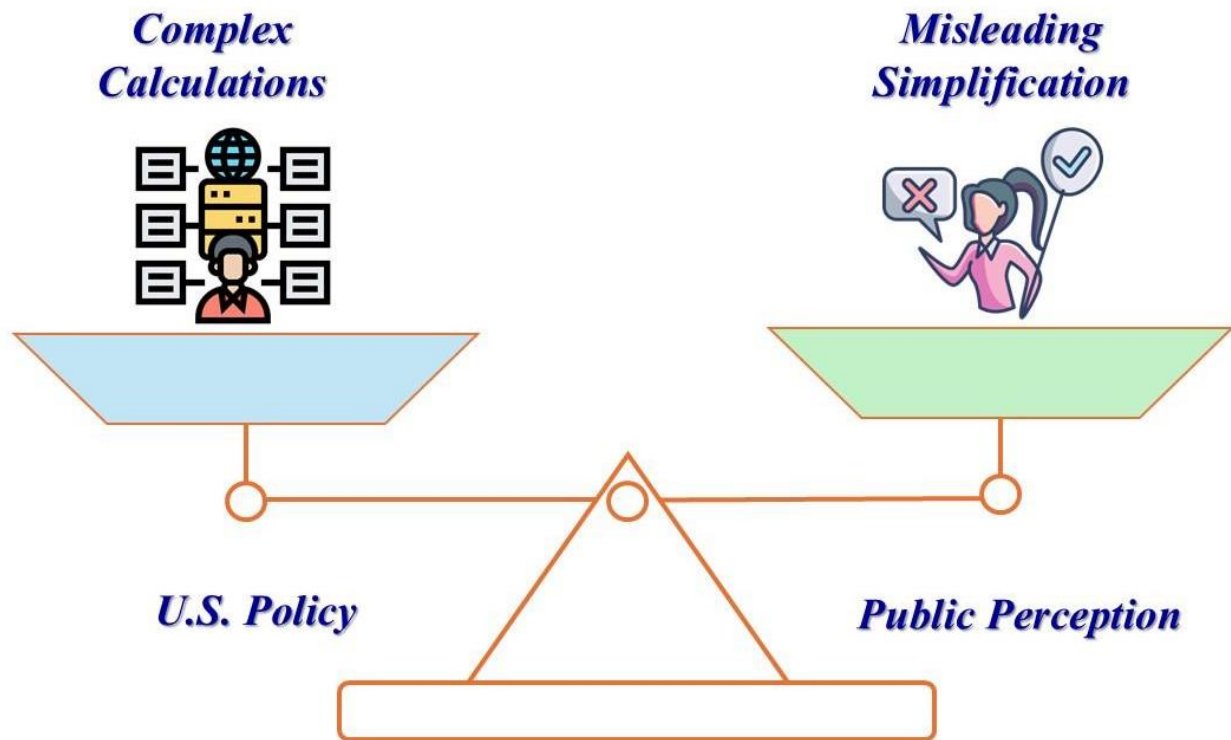


Figure 1. Balancing clarity and misleading in Tariff Presentations.

## 2. Understanding Trade Deficits and Tariffs

Trade deficits and tariffs are essential to global trade and economic policy. To fully capture the importance of reciprocal tariff calculations and their potential misrepresentation by the U.S. Executive Office, it is crucial first to understand the underlying concepts of trade deficits and tariffs. Figure 2 below shows balancing the trade deficit and tariff impacts, a complex but fascinating process.

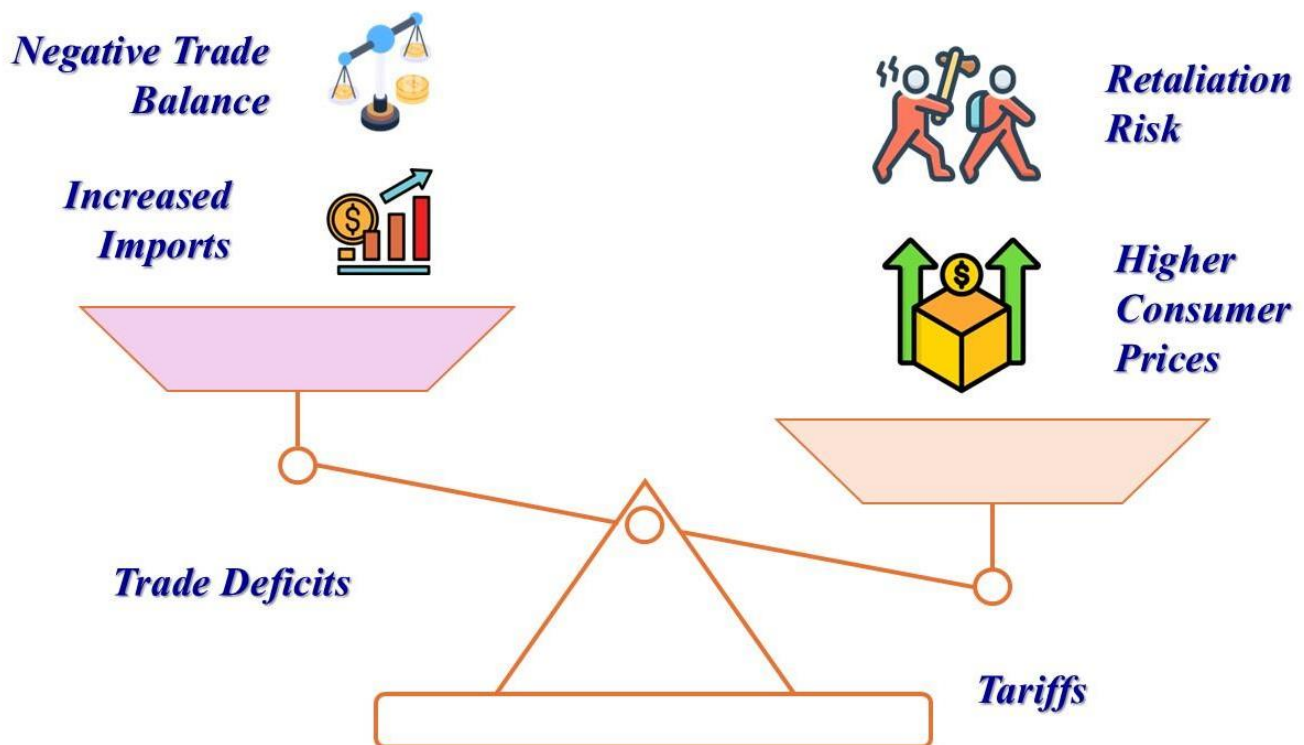


Figure 2. Balancing the trade deficit and tariff impacts.

## 2.1 Trade Deficits

A trade deficit occurs when a nation's imports exceed exports over a period. This inequality means that a government spends more on foreign goods and services than it earns from its exports (Farmer R.E.A., 1997). While trade deficits are often seen as a sign of economic vulnerability, they do not always indicate poor financial health. A trade deficit can result from increased consumer demand for foreign goods, such as high-tech products or luxury items, which can signify a stronger domestic economy. It can also reflect a stronger domestic economy that attracts foreign investment, such as when a country's booming real estate market attracts foreign buyers (Krugman et al., 2018).

While large trade deficits may raise concerns about a nation's economic policies' sustainability and capacity to service external debt, they also present an opportunity for change. Trade deficits, a persistent issue for the United States, have sparked debates about their long-term consequences on national security, employment, and industrial capacity. However, these debates also open the door for potential policy changes that could address these concerns (Bown, 2019).

The effect of trade deficits is not a one-size-fits-all situation. It varies across enterprises, each with its own unique set of challenges and opportunities. For example, consumer goods sectors may benefit from lower prices due to the influx of imports, while manufacturing industries may suffer due to increased competition from foreign producers. The rise of outsourcing and offshoring in specific sectors also expands the U.S. trade deficit, adding another layer of complexity (Rodrik, 2017).

## 2.2 Tariffs

Tariffs are duties put on imported goods used by states to control trade and safeguard domestic enterprises from foreign competition. By making foreign goods more costly, tariffs are planned to encourage customers to buy domestic products, thereby boosting local economies. Tariffs can also be used as a political tool, leveraging trade negotiations to gain advantages in international agreements (Irwin, 2017).

The imposition of tariffs is usually justified as handling trade inequalities, saving jobs, or offsetting unfair trade practices, such as discarding or funding foreign goods (Baldwin, 2016). However, tariffs can also lead to trade conflicts and retaliation, resulting in escalating obstacles that may harm both the imposing and targeted nations (Beeson, 2018). For instance, the U.S.-China trade war showcased how tariffs can disrupt global supply chains and raise consumer costs in both countries.

In the case of the U.S., tariffs have been a central focus of trade policy, especially in recent years with escalating trade wars. The U.S. Executive Office, which plays a key role in deciding tariff policy, often says tariffs are a means of fixing the trade deficit, especially with key trading allies like China. However, how tariffs and trade deficits are calculated and presented can sometimes obscure the actual economic impact of these policies (Hufbauer and Schott, 2019).

## The Relationship Between Trade Deficits and Tariffs

The connection between trade deficits and tariffs is complex and multifaceted. While tariffs are planned to curb trade deficits by limiting imports, their usefulness in achieving this objective is a matter of idea. For instance, tariffs can escalate customer prices by raising the cost of imported goods and disrupt supply chains by making it more difficult for industries to source required materials, thereby reducing the economic benefits of local production. Likewise, retaliatory tariffs set by trading partners can void the expected benefits of a tariff policy (Feenstra, 2018).

Economists, as key figures in the field, assert that tariffs alone are doubtful to greatly reduce trade deficits if other structural factors, such as exchange and domestic savings, are not addressed (Obstfeld and Rogoff, 1995). For instance, a country with a significant trade deficit may also run high fiscal deficits, which could deepen the imbalance by boosting excessive import demand. Understanding the interdependence of trade deficits and tariffs is crucial when assessing the presentation of tariff calculations by the U.S. Executive Office. The techniques used to calculate and communicate these figures significantly impact how trade policies are sensed and understood both domestically and internationally (Krugman et al., 2018).

**Critique of the U.S. Reciprocal Tariff Model**

The reciprocal tariff standard the U.S. Executive Office uses is central to understanding the nation's path to international trade relations. This model is based on the principle of reaching a balanced trading relationship, where tariffs levied on foreign goods are designed to correspond to the tariffs imposed by trading partners on U.S. exports. While this model seeks to level the playing field and address trade inequalities, its usefulness and accuracy have been the subject of notable debate among economists and trade policy analysts. Figure 3 below shows the U.S. reciprocal tariff model's economic and political challenges.

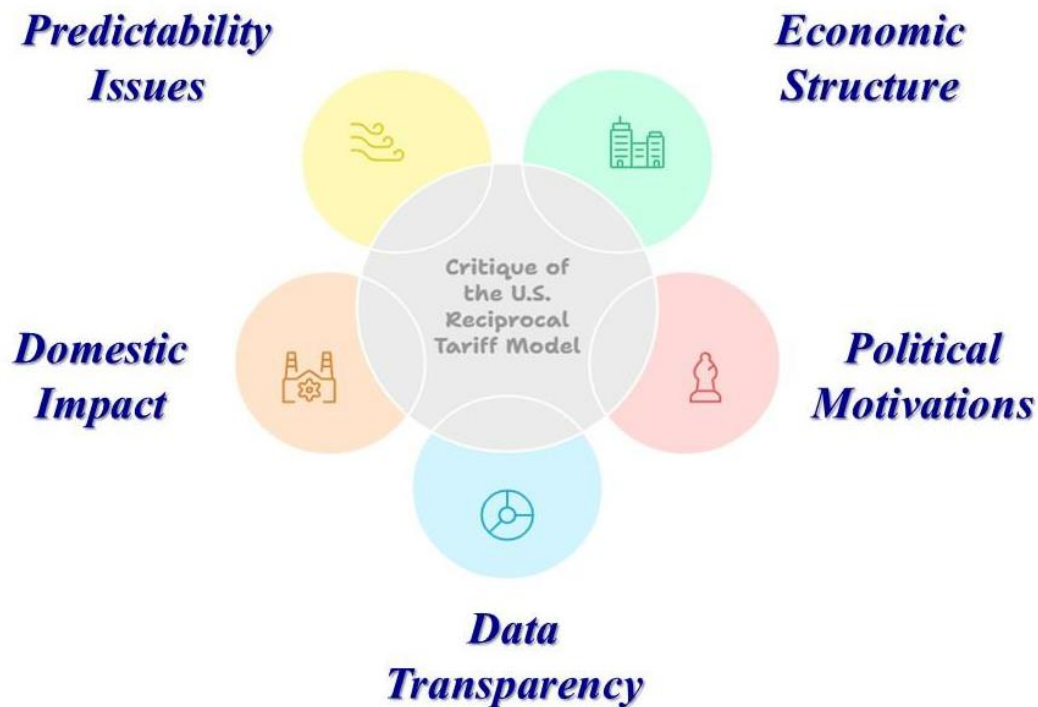


Figure 3 U.S. reciprocal tariff model's economic and political challenges.

### 3.1 Economic Structure

A critical flaw in the U.S. reciprocal tariff model is its oversimplification of complicated economic facts. The model treats tariffs as a one-dimensional tool for balancing trade deficits without accounting for the more comprehensive economic structure. Tariffs can affect enterprises differently, as sectors like consumer goods may benefit from more affordable imports, while others, such as manufacturing, may suffer due to inflated foreign competition (Rodrik, 2017). The reciprocal tariff model assumes that imposing tariffs in response to foreign tariff policies will lead to a direct reduction in trade imbalances, ignoring the fact that other factors—such as exchange rates, foreign direct investment, and domestic savings rates—play significant roles in shaping trade deficits (Obstfeld and Rogoff, 1995).

Moreover, the model assumes that retaliatory tariffs will force trading partners to lower their tariffs on U.S. exports. However, this approach often leads to trade wars that escalate uncertainties rather than fix underlying trade inequalities. The U.S.-China trade conflict, for instance, shows how reciprocal tariffs can disrupt international supply chains, hurt local consumers, and fail to produce the planned economic benefits (Feenstra, 2018).

### 3.2 Political Motivations

A further analysis of the U.S. reciprocal tariff model lies in its political and strategic reasons. The imposition of tariffs often exceeds economic logic, as it is frequently used to gain broader geopolitical goals. In some cases, tariffs pressure trading partners to negotiate on various issues, including intellectual property rights, currency manipulation, and labor standards (Baldwin, 2016). While these strategic goals are legitimate, using tariffs as a negotiating tool may distort the calculation of reciprocal tariffs. This distortion can mislead the public and other nations into thinking that the imposition of tariffs is solely a response to trade imbalances when, in fact, it may reflect the pursuit of other, more politically motivated objectives (Hufbauer and Schott, 2019).

Dependence on such a model also fails to consider the long-term harm to international trade relationships. Retaliatory tariffs, especially those set on agricultural exports or technology products, can have an enduring effect on the international supply chain, as partners may seek to diversify their trade connections. This damages trust in the U.S. as a trustworthy trading partner and may prevent future foreign investment (Krugman et al., 2018).

### 3.3 Data Transparency

Another important critique of the U.S. reciprocal tariff model concerns data clarity and methodological flaws in tariff calculation. The U.S. often presents tariff data in a way that simplifies complex trade relationships. For example, the model may fail to account for the specific terms of trade, which can vary dramatically between countries. In some cases, countries may have non-tariff barriers, such as quotas or subsidies, that are not captured in reciprocal tariff calculations (Irwin, 2017). As a result, the presented tariffs may not fully reflect the trade barriers that U.S. exporters face.

Furthermore, the method used to calculate "reciprocal" tariffs is sometimes criticized for not considering the effective tariff rate, which accounts for both tariff rates and the total volume of trade subject to those tariffs (Bown, 2019). By focusing on the negligible tariff rates without thinking of these other factors, the U.S. risks showing an uneven picture of the trade relationship, which can deceive the public and policymakers about the actual economic effect of tariff policies.

### 3.4 Domestic Impact

Finally, the U.S. reciprocal tariff standard has important implications for domestic industries. While the purpose of tariffs is often to protect American jobs and stimulate domestic production, in practice, tariffs can lead to higher costs for U.S. consumers and businesses. Industries that rely on imported goods, such as manufacturers of electronics and automotive parts, often share inflated production costs, which are ultimately passed on to customers through more elevated prices (Irwin, 2017). This effect undermines the argument that tariffs can benefit the domestic economy by increasing domestic production. Additionally, farming sectors, which rely heavily on global markets, are often the most impacted by retaliatory tariffs, leading to decreased exports and financial losses for American farmers (Bown, 2019).

### 3.5 Predictability Issues

The inconsistency of U.S. tariff guidelines and the lack of predictability in tariff adjustments also damage the effectiveness of the reciprocal tariff model. Trade partners may struggle to anticipate the U.S. stance on tariffs due to frequent policy changes, especially when tariffs are altered unilaterally or in response to political considerations (Beeson, 2018). This unpredictability lessens the incentives for foreign businesses to invest in the U.S. market and can cause long-term disturbances to international trade flows. Stability in trade policy is important for promoting international trade relations and cross-border investment, both of which are threatened by the volatility associated with the U.S. tariff model.

## 4. U.S. Reciprocal Tariff Model Analysis

The reciprocal tariff approach posits that tariffs equivalent to the value of the bilateral trade deficit would eliminate the said deficit. This model is based on a narrow view of trade elasticities and ignores the dynamic interplay of non-tariff factors. Figure 4 below shows the analysis of the U.S. reciprocal tariff model.

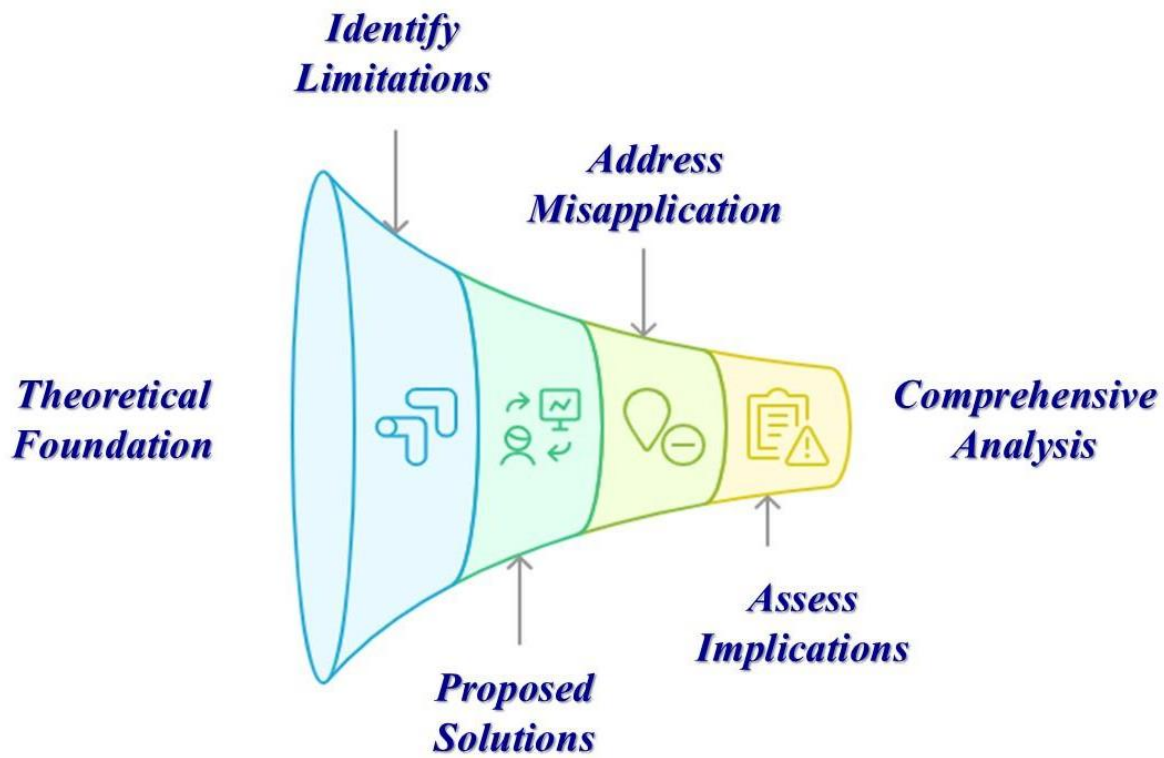


Figure 4. Analyzing U.S. reciprocal tariff model.

#### 4.1 Theoretical Foundation

The reciprocal Tariff Calculations formula presented by the Executive Office is (US President, 2025):

$$\Delta\tau = \frac{Xi - Mi}{\varepsilon * \varphi * Mi} \quad (1)$$

Where:

- $\Delta\tau$ : Change in the US tariff rate on a country
- $\varepsilon$ : Price Elasticity of US import demand
- $\varphi$ : Pass-through rate to import prices
- $Xi$ : The total US exports to the country
- $Mi$ : Imports from country iii

$$\Delta\tau = \frac{\text{Total Export from US} - \text{Total US imports}}{\text{Price Elasticity} * \text{Passthrough rate} * \text{Total US imports}} \quad (2)$$

Assumptions include a price elasticity of 4 and a tariff pass-through of 0.25 (US President, 2025). However, these values are highly contested. For instance, Boehm et al. (2023) suggest that long-term elasticities are closer to 2, and pass-through rates can vary widely depending on the industry and policy context (Cavallo et al., 2021).

$$\Delta\tau = \frac{Xi - Mi}{4 * 0.25 * Mi} \quad (3)$$

Simply, as follows:

$$\Delta\tau = \frac{Xi - Mi}{Mi} \quad (4)$$

Interpretation of the formula as follows (Thurairajah, 2025a, 2025b):

$$\Delta\tau = \frac{\text{Total Export from US} - \text{Total US imports}}{\text{Total US imports}} \quad (5)$$

Finally,

$$\text{Tariff Rate} = \frac{\text{US Trade deficit}}{\text{Total US imports}} \quad (6)$$

The country-specific tariff, computed using the above formula, is a key factor in comprehending trade deficits and tariffs. These two ideas are often mistaken or mixed in public discussions. However, they are fundamentally distinct economic concepts, and using the country-specific tariff as a metric can be deceiving (Thurairajah, 2025a, 2025b).

A trade deficit, a complex economic phenomenon, happens when a nation imports more goods and services than it exports. It is not naturally harmful. Trade deficits can recall healthy customer demand, robust investment, and economic vitality. On the other hand, tariffs are policy tools—taxes imposed on imported goods. Governments may use them to protect domestic industries, respond to unfair trade practices, or raise revenue. However, when misused, tariffs can also lead to significantly higher consumer prices, retaliation from trading partners, and severe supply chain disruptions that harm US citizens (Thurairajah, 2025b). Blending trade deficits with tariffs as a blunt tool to 'fix' deficits can lead to misguided policy and a wrong approach. This method of calculation is fundamentally flawed. It harms not only US citizens but also Canadians (ibid). Therefore, this is brought to the attention of the US administration. Figure 1 shows US President Donald Trump holding up a chart covering the 'reciprocal' tariffs on other countries at the White House on April 2, 2025, 'Liberation Day.'

**Figure 1. “Liberation Day” Tariffs Explained**

Source: Chip Somodevilla/Getty Images



### Calculation and Reality

While much awareness has been concentrated on the tariff chart, it's essential to identify the complex nature of the calculations behind it. How were these tariffs calculated? More importantly, why might they not yield the desired results in the real world? In this study, the author delves into the complex formula behind the tariffs, underscoring why the hypotheses used in the calculation may not align with real-world outcomes. This underlines the importance of understanding the tariff calculation process more deeply.

$$\Delta\tau = \left( \frac{Xi - Mi}{\varepsilon * \varphi * Mi} \right) * \left( \frac{1}{2} \right) \quad (7)$$

$$\Delta\tau = \left( \frac{\text{Total Export from US} - \text{Total US imports}}{\text{Price Elasticity} * \text{Passthrough rate} * \text{Total US imports}} \right) * \left( \frac{1}{2} \right) \quad (8)$$

Here are the assumed values for this formula:

- **Deficit:** The trade deficit is the difference between the value of exports and imports.
- **Price Elasticity of Import Demand:** The price sensitivity of demand for imports (assumed to be 4 in this case).
- **Passthrough Rate:** The percentage of the tariff cost passed on to consumers (assumed to be 0.25, or 25%, meaning 75% of costs were absorbed by manufacturers/exporters).
- **Discounted Reciprocal Tariff Rate:** consideration of 50% of the reciprocal tariff rate.

The Trump government's determination to use a uniform elasticity of 4 and a passthrough rate of 25% for all nations, regardless of the type of imported goods, could have significant and potentially concerning implications. This uniform approach may have varied effects on different economies, a matter of urgent concern.

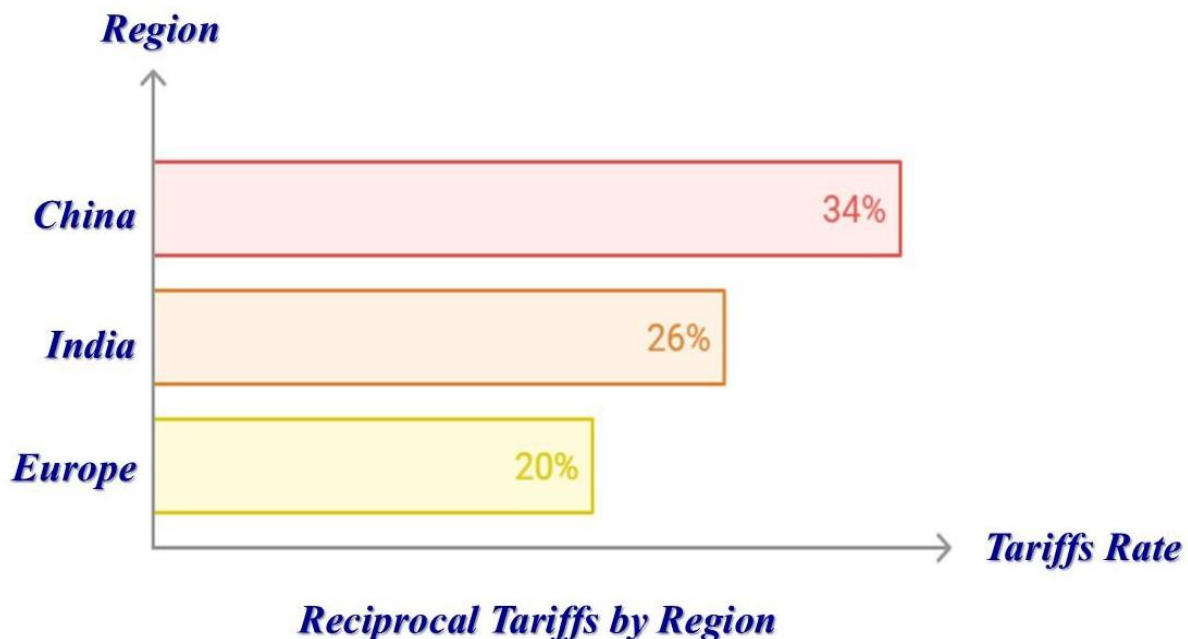
Table 1 shows the values of some countries, including China, India, and Europe, which were assumed universally. Each of these countries has a unique economic relationship with the US, a factor that is not just important but essential to consider when analyzing the impact of tariffs. The only exception I observed is Europe, where the elasticity was estimated at 3.55.

**Table 1. Calculation of Tariff Overview**

| Country | Exports<br>(\$Billion) | Imports<br>(\$Billion) | Balance | Elasticity | Passthrough<br>Rate | Reciprocal<br>Tariff | Discounted<br>Reciprocal Tariff |
|---------|------------------------|------------------------|---------|------------|---------------------|----------------------|---------------------------------|
| China   | 144                    | 439                    | -295    | 4          | 0.25                | 67%                  | 34%                             |
| India   | 42                     | 87                     | -46     | 4          | 0.25                | 52%                  | 26%                             |
| Europe  | 504                    | 771                    | -267    | 3.55       | 0.25                | 39%                  | 20%                             |

Figure 2 shows the tariff rates of some countries, including China, India, and Europe, based on a passthrough rate of 0.25.

**Figure 2. The tariff rates for some regions are based on a passthrough rate of 0.25**



**What Is Elasticity and Why Does It Matter?**

Price elasticity, a key financial concept, estimates how much demand for a product increase or decreases when its price rises. For instance, if a product's elasticity is 4, it means that for every 1% increase in cost, the amount required for that product will fall by 4%. This suggests that demand is highly elastic, significantly influencing consumer behavior and market dynamics. However, it's important to note that applying a blanket elasticity of 4 for all imported goods may be problematic. Elasticity varies greatly depending on the product type (Patrick, et al., 1997). The U.S. imports a large variety of goods from each country. Essential items like food and medicine tend to have low elasticity, meaning their demand doesn't drop much when prices rise. On the other hand, luxury goods or non-essential products often have higher elasticity, meaning their demand is more likely to decrease when prices increase (ibid).

**The Impact of the Passthrough Rate**

Another critical factor in the tariff calculation is the passthrough rate. This rate determines how much the tariff cost gets passed down to consumers. A passthrough rate of 0.25 (or 25%) means that only 25% of the tariff cost is added to the price consumers pay, while the producer or exporter absorbs the remaining 75%. The Office of the U.S. Trade Representative clarified this assumption by citing a study by Cavallo et al. (2021). This study examined past experiences, particularly the U.S.-China tariff conflict, where the passthrough to retail prices was lower than expected. However, it's worth noting that this study wasn't correctly cited in the official article, highlighting the importance of accurate citation in maintaining research integrity.

**Cavallo's Response to this flawed approach**

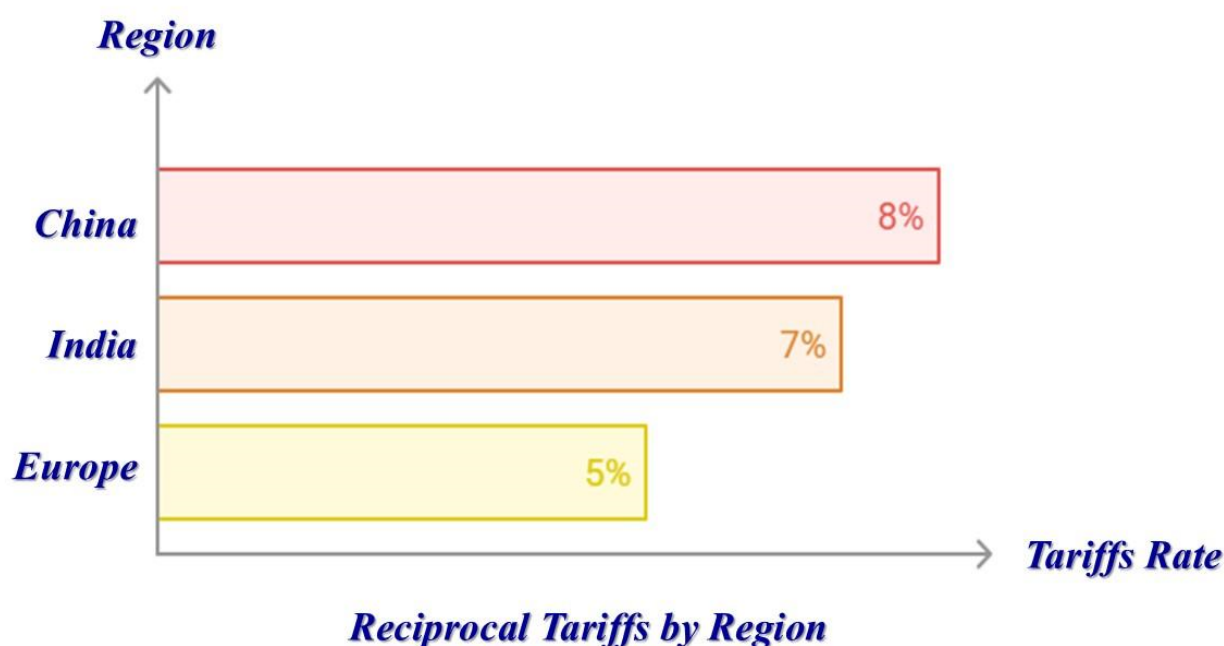
Interestingly, Alberto Cavallo challenged the assumption that the passthrough rate is 0.25. Cavallo's research suggests that the elasticity of import prices concerning tariffs is closer to 1, meaning that a much higher portion of the tariff cost is passed on to consumers. The implied reciprocal tariffs would be four times smaller if one were used as the passthrough rate instead of 0.25. Table 2 shows the effect of this adjustment; here's a comparison of reciprocal tariff rates calculated with 0.25 and 1 as passthrough rates. The difference is 4 times smaller when Cavallo's figure is applied, drastically affecting the final tariff calculations.

**Table 2. Calculation of Tariff at 1 Passthrough Rate**

| Country | Exports<br>(\$Billion) | Imports<br>(\$Billion) | Balance | Elasticity | Passthrough<br>Rate | Reciprocal<br>Tariff | Discounted<br>Reciprocal Tariff |
|---------|------------------------|------------------------|---------|------------|---------------------|----------------------|---------------------------------|
| China   | 144                    | 439                    | -295    | 4          | 1                   | 17%                  | 8%                              |
| India   | 42                     | 87                     | -46     | 4          | 1                   | 13%                  | 7%                              |
| Europe  | 504                    | 771                    | -267    | 4          | 1                   | 10%                  | 5%                              |

Figure 3 shows the tariff rates of some countries, including China, India, and Europe, based on a passthrough rate of 1.

**Figure 3. The tariff rates for some regions are based on a passthrough rate of 1**



The reciprocal tariffs were developed using a formula that considers the trade deficit, elasticity of demand, and the passthrough rate. However, Cavallo's assumption always mirrors reality. Variations in elasticity across product types, differences in passthrough rates, and supply chain complexities can all lead to different outcomes than the formula predicts. It's crucial to understand these limitations, which can lead to a situation that delivers unwanted results, stressing the importance of a more nuanced approach to tariff calculations.

#### 4.2 Identify Limitations

This research critically examines the U.S. Executive Office's presentation of reciprocal tariff calculations, particularly the premise that imposing tariffs equivalent to bilateral trade deficits will eliminate those deficits. While the analysis reveals fundamental flaws in the reciprocal tariff model—most notably its disregard for trade elasticities and complex non-tariff variables—it is essential to acknowledge the methodological constraints inherent in this study.

The analysis is mainly conceptual and qualitative, drawing on economic theory, policy statements, and selected case studies. While this method is suitable for critiquing policy logic, it limits the ability to quantitatively test the effects of reciprocal tariffs across various trade partners. The absence of a vibrant econometric model or simulation reduces the study's capacity to predict the macroeconomic consequences of such a tariff regime with precision (Irwin, 2017).

Secondly, the scope of the research is restrained by the availability and clarity of official data. Many hypotheses and calculations presented by the U.S. Office are either opaque or lack full practical disclosure, making it hard to fully deconstruct the underlying economic rationale (Bown and Crowley, 2020). This limitation affects the depth of practical validation that could otherwise support or deny the claims made by policy officials.

Thirdly, the study abstracts from country-specific institutional and geopolitical factors impacting trade outcomes. While the analysis underscores the lack of the tariff-deficit link, it does not thoroughly examine how global supply chains, multilateral trade agreements, or retaliatory measures might distort or nullify the intended effects of reciprocal tariffs.

#### 4.3 Proposed Solutions

Future research should incorporate a quantitative component by developing a computable general equilibrium (CGE) model or a structural vector autoregression (SVAR) framework to address these limitations. These approaches would allow for the simulation of the effects of reciprocal tariffs under varying elasticities, exchange rate responses, and retaliatory trade actions (Zhai, 2008).

Also, using disaggregated bilateral trade data over a more extended time horizon—complemented by interviews with trade economists and policy analysts—would enhance practical depth and contextual understanding. Transparency could also be improved

by triangulating official U.S. tariff policy statements with third-party trade data from organizations such as the World Trade Organization (WTO), OECD, and the United Nations Conference on Trade and Development (UNCTAD) (WTO, 2023).

Finally, assuming a proximate case study methodology to assess the impact of similar tariff plans in other countries could offer insights into how such models function—or fail—when used beyond U.S. borders. This would enrich the critique by introducing external benchmarks and broadening the scope of the analysis (Rodrik, 2018).

#### 4.4 Address Misapplication

A significant limitation in the U.S. Executive Office's presentation of reciprocal tariff calculations lies in the empirical misapplication of trade data. The assertion that bilateral trade deficits can be corrected by imposing reciprocal tariffs assumes a direct, linear relationship between tariffs and trade flows—an assumption that oversimplifies international trade's highly elastic and interdependent nature (Krugman, 2018). This hypothesis ignores the fundamental economic principle that various macroeconomic variables influence trade inequalities, including exchange rates, fiscal policy, and relative productivity.

Moreover, the methodology implicitly assumes that U.S. exports and imports with a given country respond symmetrically to tariff changes. However, empirical studies have shown that import and export elasticities vary considerably across sectors and trading partners (Feenstra, 2004). By ignoring this heterogeneity, the reciprocal tariff model risks drawing empirically ungrounded endings and potentially harms U.S. industries reliant on global supply chains.

The Executive Office's use of gross trade balance figures rather than value-added measures further distorts the empirical foundation of its reciprocal tariff approach. In today's integrated global economy, gross figures exaggerate the size of deficits in countries that function as assembly hubs, such as China and Mexico (Johnson and Noguera, 2012). Therefore, the policy justification becomes disconnected from economic reality, potentially leading to misguided trade interventions.

Another misapplication arises from the assumption that trade deficits inherently signal economic weakness or unfair practices. This view is not universally supported in the practical literature, which often views continued deficits as a review of capital influxes and consumption patterns rather than evidence of inequitable trade (Cline, 2017). The mischaracterization of trade deficits as a policy failure misdirects attention from structural factors such as savings-investment imbalances.

#### 4.5 Assess Implications

The U.S. support for a reciprocal tariff model, grounded in the faulty assumption that trade deficits can be resolved through symmetric tariff adjustments, carries profound implications for Canada and the broader global trading system. As Canada is one of the United States' largest trading partners in goods and integrated supply chains, this model risks destabilizing a historically cooperative and economically interdependent relationship (Government of Canada, 2023).

For Canada, imposing reciprocal tariffs to address perceived inequalities could result in retaliatory measures, disrupted investment flows, and uncertainty for businesses operating across the U.S.–Canada border. This is particularly significant in sectors like automotive manufacturing, where cross-border value chains are tightly integrated. Baldwin and Evenett (2020) argue that such policy approaches may undermine decades of progress in North American economic integration achieved through trade agreements like NAFTA and its successor, the USMCA.

Globally, adopting reciprocal tariff logic by a major economy such as the United States sets a precedent that risks normalizing retaliatory trade policy. This challenges the multilateral, rules-based trading system overseen by the World Trade Organization (WTO), which discourages unilateral tariff escalation without due process (WTO, 2023). Should other countries emulate this model, the result could be a breakdown in cooperative mechanisms and an increase in protectionist policies worldwide—amplifying trade volatility and weakening economic recovery in vulnerable economies.

Furthermore, Canada's trade policy—largely aligned with multilateral norms—may be at odds with an increasingly unilateral U.S. strategy. This could pressure Canadian policymakers to reconsider their commitments or seek deeper diversification away from U.S. markets, particularly toward Europe and Asia-Pacific partners (Ciuriak, 2018). In this context, the U.S. model distorts bilateral trade logic and inadvertently encourages global economic fragmentation.

## 5. Policy Recommendations

Given the empirical and conceptual weaknesses identified in the U.S. Executive Office's reciprocal tariff model, a set of forward-looking, evidence-based policy recommendations is essential to steer trade policy toward greater effectiveness and coherence.

### 5.1 Trade Policy Reframing

U.S. trade policy needs to evolve beyond the simplistic metric of bilateral trade deficits as a basis for tariff action. Trade imbalances are macroeconomic phenomena, not necessarily indicative of unfair trade practices (Cline, 2017). Policymakers should consider a broader range of performance indicators—such as productivity growth, value-added trade, and labor market resilience—to evaluate the strength of trade relationships. Figure 5 below presents the strategic policy enhancements for global trade and economic growth.

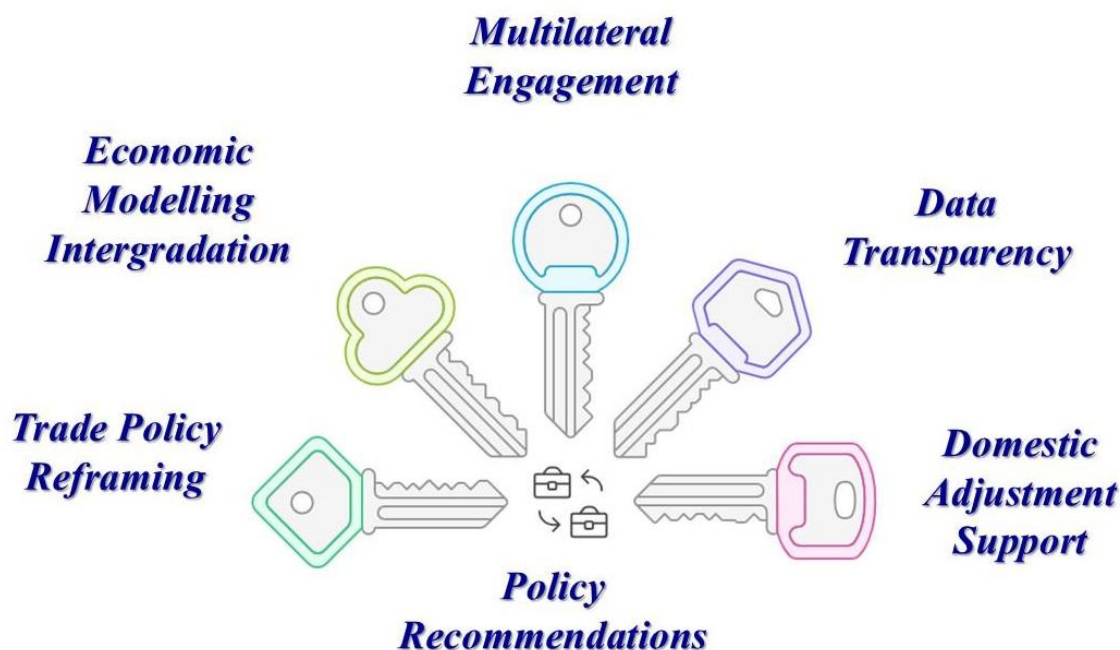


Figure 5. The strategic policy enhancements for global trade and economic growth.

### 5.2 Economic Modelling Integration

Trade policy determinations should be guided by strong econometric tools, including Computable General Equilibrium (CGE) models and elasticity-based simulations, which account for the complex interdependencies of international trade. This would decrease the risk of unintentional consequences from tariff imposition and strengthen the empirical foundations of U.S. trade strategies (Zhai, 2008).

### 5.3 Multilateral Engagement

Rather than encouraging a unilateral, retaliatory framework, the U.S. should reaffirm its dedication to multilateral trade institutions such as the WTO. Engaging constructively in dispute solutions and trade negotiations reinforces U.S. leadership and helps maintain the stability of the global trading system (WTO, 2023).

### 5.4 Data Transparency

The Executive Office should publish the methodologies behind its trade calculations to promote accountability and informed debate. This includes assumptions regarding elasticities, timeframes, and projected outcomes. Transparency would facilitate external peer review and reduce the politicization of trade policy.

### 5.5 Domestic Adjustment Support

Tariffs alone cannot rectify structural economic challenges. U.S. trade policy should be accompanied by investments in workforce retraining, innovation incentives, and infrastructure, thereby enhancing the competitiveness of domestic industries without resorting to protectionism (Rodrik, 2018).

## 6. Discussion

The results of this study reveal critical flaws in the U.S. reciprocal tariff model, particularly its reliance on bilateral trade deficits as the basis for policy action. The core assumption—that applying symmetrical tariffs to mirror trade deficits will automatically rectify imbalances—is theoretically flawed and empirically unsound. This method fails to account for global trade's dynamic and multidimensional character, including the roles of elasticities, currency fluctuations, global supply chains, and sector-specific variables (Krugman, 2018; Feenstra, 2004).

The analysis demonstrates that such a narrow framework reduces complex economic relationships to a simplistic accounting logic. As a result, it risks distorting public understanding of trade, undermining credibility in policy formulation, and provoking retaliatory responses from key trade partners. In particular, the misapplication of gross trade data, rather than value-added metrics, exacerbates the perceived magnitude of deficits with countries like China and Mexico—fueling misguided protectionist rhetoric (Johnson and Noguera, 2012).

This critique also highlights how the model lacks alignment with established international economic theory. Contemporary trade theory recognizes that deficits often reflect broader macroeconomic conditions—such as capital inflows and consumption preferences—not inherently evidence of unfair practices (Cline, 2017). Yet the Executive Office's narrative ignores these nuances, presenting a politically expedient but analytically deficient model.

The research also highlights that this model's importance extends beyond the United States. For Canada, a key U.S. trading partner, adopting reciprocal tariffs would disrupt combined value chains and introduce policy uncertainty. Globally, the model jeopardizes the multilateral trading system by setting a precedent for unilateral, retaliatory actions that undermine WTO norms (Baldwin and Evenett, 2020).

The discussion also affirms the need for a shift in trade policy thinking. A transition from deficit-focused justifications toward strategies based on competitiveness, innovation, and multilateral cooperation would yield more sustainable outcomes. This is especially appropriate in the current geopolitical context, where supply chain resilience, digital trade, and climate-linked trade measures are emerging as new policy frontiers.

Finally, the U.S. model represents a deterioration to a zero-sum view of trade that contrasts sharply with the cooperative frameworks underpinning global economic integration since World War II. As this study has shown, it is urgently necessary to align trade discourse and policymaking with modern practical and academic insights to ensure economic efficiency, international stability, and trust.

## 7. Conclusion

This research has critically reviewed the U.S. application of a reciprocal tariff model, revealing a methodologically flawed and empirically misused approach to addressing bilateral trade deficits. The central premise—that imposing symmetrical tariffs equivalent to a trade deficit will eliminate the imbalance—oversimplifies the complex realities of international trade. These complexities include the role of elasticity variance, the challenges in value-added trade measures, and the significance of macroeconomic context, all of which are ignored by the model.

The analysis shows that this model lacks theoretical rigor and risks undermining domestic economic interests and international trade relationships. For example, it falsifies the causes and effects of trade deficits, weaponizes trade inequalities for political ends, and poses significant challenges for countries like Canada that are economically integrated with the United States. At the global level, promoting this approach risks the stability of the multilateral trading system by encouraging retaliatory behavior and deteriorating confidence in cooperative economic governance.

Furthermore, the reciprocal tariff model exemplifies a broader trend toward policy driven more by political expediency than empirical validity. Its formulation's lack of clarity and failure to engage with modern economic theory depletes its credibility as a tool of contemporary trade policy. This trend is evident in the model's design, prioritizing short-term political gains over long-term financial stability and growth.

In response to these findings, this study advocates reorienting U.S. trade policy. Rather than relying on deficit-focused tariff logic, the U.S. should embrace data-driven, multilateral, and strategically adaptive methods reflecting global economic interdependence's facts. This includes a commitment to improved analytical modeling, which provides a solid foundation for developing more coherent and empirically grounded trade strategies.

This study exposes the flaws of the reciprocal tariff model, contributing to a more subtle understanding of trade policy formulation. It offers a basis for developing more coherent, empirically grounded, globally responsible trade strategies.

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