Import Tariffs and Global Sourcing
(with Pol Antràs, Agustín Gutiérrez, and Felix Tintelnot)

Abstract:
We study trade policy in an environment with intermediate and final-good trade. Although real-world import tariffs tend to be higher for final goods than for inputs, a phenomenon referred to as tariff escalation, neoclassical trade theory -- and modern Ricardian trade models, in particular--cannot easily rationalize this fact. We show that optimal input tariffs are lower than final-good tariffs in the presence of product differentiation, scale economies, and market power. A unilateral tariff in either sector increases a country's relative wage and attracts firm entry to that sector, both of which raise welfare. While these forces are reinforced up the chain for final-good tariffs, input tariffs raise final-good producers' costs, mitigating their potential benefits. A quantitative evaluation of the US-China trade war demonstrates that any welfare gains from the increase in US tariffs are overwhelming driven by final-good tariffs.