Discussion of "Falling Dominoes? The Impact of the U.S. Exit from Free Trade on the Sustainability of Trade Cooperation"

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Overview

This is a thoughtful and well-executed paper that tackles a central question in international economics: what sustains cooperation in trade policy, and in particular whether the United States plays a pivotal role in maintaining the recent low-tariff equilibrium. The paper builds on the analysis of tariff sustainability in Mei (2020) in a timely and policy relevant way. The analysis is done through the lens of repeated tariff game in the standard static multi-country input-output model. It concludes that the U.S. is largely irrelevant for sustaining cooperation—other regions, notably Europe and China, would continue to cooperate even if the U.S. exited free trade.

That conclusion is provocative. It runs against a widely held view that the postwar trading system has depended critically on U.S. leadership. Once you start thinking about these issues you can't stop thinking about them! My comments focus on four issues: (i) the U.S. perspective and why policy has deviated from simple optimal tariff logic, (ii) the robustness of optimal tariff results and welfare implications, (iii) the role and measurement of trade elasticities, and (iv) whether international policy is truly independent across countries.

1 The Missing U.S. Perspective

The most striking feature of the paper is that the U.S. is central in motivating the exercise but largely absent from the core mechanism. The model focuses on the strategic interaction between Europe and China and finds that removing the U.S. has little effect on cooperation.

From a theoretical standpoint, this is surprising. The U.S. is large and has been large for a long time. Standard trade theory implies that large countries possess market power and should exploit it via positive optimal tariffs. Moreover, in the model environment retaliation is limited. Taken literally, this suggests that the U.S. should impose tariffs and benefit without triggering major retaliation. The authors are very supportive of aspects of current U.S. policy

Yet this is not what we observe. For roughly 80 years, the U.S. has largely refrained from exploiting its market power and instead led efforts toward trade liberalization. In fact, under many parameterizations, a free trade equilibrium benefits the rest of the world more than the U.S.

itself. This raises a basic question: why would the U.S. invest in arrangements that provide greater benefits to the rest of the world than itself?

Several explanations are plausible. One is altruism: the U.S. may place weight on foreign welfare. If that weight has changed, it would seem reasonable to change tariff policy. Another is ideology: a long-standing intellectual tradition frames tariffs as inherently harmful. A third is that there are additional benefits to free trade not captured in the model—reduced conflict, diffusion of market institutions, or macroeconomic stability. A fourth possibility is fiscal: trade policy may interact with domestic tax systems in ways that alter incentives.

A final explanation is dynamic: the U.S. may be investing in a reputation for cooperation, expecting future returns. One can think of this as a "goodwill" or relational contract interpretation of trade policy. Indeed, my reading of the decision to recognize China and it with MFN access to the U.S. market in 1978 was this type of investment in the hope for a democratic transition led by newly installed leader Deng Xiaoping. In that case, current deviations from free trade are not isolated decisions but part of an intertemporal exchange. This type of mechanism is absent from the framework, but it may be central to understanding actual policy choices.

2 Optimal Tariffs: Structure and Robustness

To organize ideas, it is useful to return to the canonical benchmark: a two-country Armington model with iceberg trade costs. In that environment, the optimal unilateral tariff is given by the Mill–Bickerdike formula:

$$\tau^* = \frac{1}{\varepsilon_x} = \frac{1}{(\gamma - 1)\lambda_F}, \tag{1}$$

where ε_x is the foreign export supply elasticity which depends on γ, the elasticity of substitution, and λ_F, which is the foreign expenditure share on its own goods.

This expression is simply monopsony pricing at the country level. Market power depends on two objects: the elasticity of substitution and the importance of a country in its trading partner's consumption bundle. Larger countries and those facing less substitutable goods optimally set higher tariffs since they have market power over goods being exported by foreign countries.

This delivers clean comparative statics. Larger countries set higher tariffs. Greater trade integration raises optimal tariffs by increasing foreign dependence. Introducing altruism reduces tariffs by internalizing foreign welfare.

At the same time, the strategic interaction across countries is limited. In the canonical model, best-response functions are nearly flat: each country's optimal tariff depends little on the other's policy. This is the source of the paper's central result that international policy is largely independent. However, this conclusion may be fragile once we move beyond the frictionless benchmark.

Second-Best Considerations

The Armington model is efficient apart from tariffs. Once we introduce distortions—taxes, markups, or government spending—the optimal tariff formula acquires an additional term reflecting these distortions. In a second-best environment, tariffs interact with fiscal policy and other wedges in the economy (see Bhagwati and Ramaswami (1963) and Alessandria et al. (2025a)).

Two implications follow. First, what governments do with tariff revenue matters for both optimal policy and welfare. Tariffs can act as a substitute for other taxes or as a tool for correcting distortions. Second, efficient models can substantially mismeasure welfare gains. While they recover the structure of optimal tariffs, they may understate the welfare effects of policy changes.

Quantitatively, the welfare gains from optimal tariffs in a distorted economy can be several times larger than those implied by a frictionless model. This matters for interpretation: the baseline environment may get the direction of optimal tariffs right but not their quantitative importance or welfare implications. It is straightforward for the paper to explore this consideration since they include an endogenous labor supply decision. All they need to do is to include a tradeoff between tariffs and labor taxes in the spirit of Williams III (1999) and Parry (2001).

3 Trade Elasticities: Levels and Dynamics

The trade elasticity is the central sufficient statistic in this class of models. It determines both optimal tariffs and welfare effects. There is substantial disagreement in the literature about the magnitude and dynamics of trade elasticities. For instance, Boehm et al. (2023) find one year elasticities less than 1 that only rises to 2 over ten years whereas Alessandria et al. (2025b) find elasticities that start closer to 3 in the first year and rise to 15 in ten years.

The paper uses a value around 2 and abstracts from dynamics. That choice is consequential. It has first-order implications. Low elasticities imply large optimal tariffs and relatively small welfare effects of trade policy, especially of the magnitude proposed by the U.S.. They imply that observed trade integration has little to do with observed trade policy changes. Tariffs become a good revenue source. High elasticities imply smaller optimal tariffs but much larger real effects from policy changes. Trade policy also becomes the source of trade integration.

More importantly, elasticities are dynamic. Trade responds slowly to policy changes due to adjustment costs, investment, firm entry and exit, and expectations about the permanence of reforms. Ignoring these dynamics creates several issues. The optimal policy becomes time-dependent, potentially favoring front-loaded tariffs. The discounted path of elasticities matters for welfare. And time consistency becomes central: policies that are optimal today may not be credible tomorrow (Alessandria et al., 2026). These considerations are absent from a static or repeated-static framework, yet they are precisely the margins that determine whether cooperation can be sustained.

4 Is International Policy Independent?

The paper's core result is that international policy is largely independent: one country's tariff has little effect on others' optimal responses. While this holds in the model, my reading of history suggests the evidence is more mixed.

Historically, some tariff changes have not triggered responses, while others have led to strong retaliation or coordinated action. The Smoot–Hawley tariffs in 1930 were followed by widespread retaliation. In contrast, postwar tariff reductions under the GATT were highly coordinated. For instance, the western world imposed an embargo on China in the 1950s and Vietnam in the 1980s. Other episodes, such as the Nixon shock or voluntary export restraints, reflect more complex strategic interactions.

The experience with China is particularly informative. Trade policy toward China has often been highly coordinated among major economies, reflecting geopolitical considerations as much as economic ones. More recent actions by the European Union—such as tightening safeguards and imposing targeted tariffs—also appear to follow U.S. policy moves, suggesting some degree of interdependence.

These patterns indicate that policy choices are influenced by factors beyond those captured in the model, including geopolitical alignment, institutional coordination, and shared constraints.

5 What Is Missing?

The model provides a clean and useful benchmark, but its stark conclusions reflect equally stark assumptions. Several mechanisms that are likely important in practice are absent.

First, trade may involve public goods, such as infrastructure and institutions, that generate interdependence across countries. Second, there may be economies of scale in trade networks that amplify coordination effects. Third, fiscal externalities may link countries through revenue systems. Fourth, financial frictions and adjustment costs may shape the dynamic response to policy changes. Finally, geopolitical considerations may create complementarities in policy choices. Incorporating even a subset of these features could alter the conclusion that international policy is largely independent.

Conclusion

This paper makes an important contribution by bringing structure to a question that is often discussed informally: does the U.S. matter for sustaining global trade cooperation? Within a clean repeated Armington-based static trade framework, the answer is largely no. But that result depends on strong assumptions: efficient environments, limited dynamics, and independent policy choices. Relaxing these assumptions could restore a central role for the U.S. in sustaining cooperation. Revisiting the formation of the world trade system with a framework that allows for a role for a big player like the U.S. could change this conclusion

The paper makes clear that disciplined, structural analyses are essential for understanding trade policy. It moves the discussion away from knee-jerk ideology and toward the rigor of our field. The next step is to enrich that framework along the dimensions where theory and data appear to diverge.

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