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Could tariffs be pro-cyclical?

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Abstract

Conventional wisdom says that tariffs are counter-cyclical. We analyze the relationship between business cycles and applied MFN tariffs using a disaggregated product-level panel dataset covering 72 countries between 2000 and 2011. Strikingly, and counter to conventional wisdom, we find that tariffs are pro-cyclical. Further investigation reveals that this pro-cyclicality is driven by the tariff setting behavior of developing countries; tariffs are acyclical in developed countries. We present evidence that pro-cyclical market power drives the pro-cyclicality of tariffs in developing countries, providing further evidence of the importance of terms of trade motivations in explaining trade policy.

JEL: F13, F14, E32

Keywords: Applied tariff, business cycle, terms of trade, political economy

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