Peterson Institute for International Economics

How to Win a Trade War: Book launch and discussion with Bown and Keynes

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[00:05:34.49] - Chad P. Bown

Hello everyone. Welcome back to the Peterson Institute for International Economics. My name is Chad Bown. I'm the Reginald Jones Senior Fellow here at the Institute. I want to welcome everybody that's here in the room in person and everyone that we have online. We are very excited here at the Institute to host today the launch of a brand new book titled How to Win a Trade War. Somebody give me the book. The authors of the book are here with us today. They are Soumaya Keynes of the Financial Times and me. So let me take a moment to introduce our speakers, and then we will get right into it. So first, Soumaya Keynes. She is an economic columnist at the Financial Times and host of the podcast The Economics Show with Soumaya Keynes. Before arriving at the FT in 2023, she, she was a journalist at The Economist for 8 years. But of course, everyone here in Washington also knows of Soumaya as one of the co-creators and co-hosts of the wildly successful, nerdiest-ever trade podcast called Trade Talks that she created and hosted for nearly 5 years with some other guy. Named me. To discuss the book today, we have brought in two very special guests.

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Inu Manek from the Council on Foreign Relations, she's a senior fellow for international trade. And Greg Ip is the chief economics commentator at The Wall Street Journal. And so the way we're going to do this is we will talk about the book for a few minutes, then we will have Inu and Greg come up and provide some discussant remarks. We will have a conversation amongst the 4 of us up at the podium, and then we are going to open things up for Q&A. All right. And with that, let me turn it over to me. So thank you everybody for being here. Um, this obviously means a lot. To start, I wanted to take a poll, and I guess we'll do this for, for the folks in the audience. How many of you— you got to raise your hand for this one— how many of you agree with the statement, no one wins a trade war? It's a lot of hands. It's a lot of hands. We have some work to do, Samea. OK, skeptical audience. Our premise— well, the title of the book is How to Win a Trade War. The premise of the book is— You can win a trade war.

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You may have to change the definition of winning, and we'll talk about that in a moment. But the main point of the book is you have to try. And we have now engaged in a very, very different world where sitting back and saying, I don't want to engage in a trade war, is no longer an option. You've got to engage. Now, what do we mean by winning? Well, in many contexts, winning will mean just it may mean minimizing your losses. But it will mean taking active policies to help you do so, because fighting is no longer an option. And what Soumya and I have tried to do in this book is to provide you with a guide for how to do so, for how to win the trade war. OK. To start, I wanted to tell you about my personal journey of getting to this point. Place, because it wasn't that long ago when somebody asked me the question, how do you win a trade war? I said, also, no one wins a trade war. And it is very zero sum. So what happened to me? Well, I suppose I changed my mind— not changed my mind, but my thinking evolved— when it became clear to me that the world had changed.

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And the key driver of that change was China, but maybe not necessarily in the reasons why you would think. First, initially, the challenges with China were essentially just over its economic system. It wasn't becoming more market-oriented. Lots of subsidies, industrial policy, state-owned enterprises. But over time, it also became clear that China not only had a different economic system, but it had a different way of viewing and interacting with the international trading system, um, than we were used to as well, and that, that created conflicts. China's policies and outcomes made it clear that it really didn't believe in interdependence the same way that the other members of the WTO and other economies around the world did. The Made in China 2025 policy its dual circulation policy. These were really attempts and efforts to make other countries dependent on China for inputs necessary for their supply chains, while at the same time reducing China's dependence on the rest of the world. And in a trading system that is oftentimes based on trust in the idea that when things happen and you need to engage with trading partners, either to sell them things or to buy them things, one of the major players out there, isn't looking at the system in that same way, the world really has changed.

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So you put those aspirations together, the policies together with the objectives, and the fact that over time China has just grown so large economically that what it does really, really matters and has impacts around the world, it became impossible to ignore. So that was sort of my starting point. Now, how about in terms of the policy and research I've undertaken since and how I got here? So I guess I would go back to maybe 2018, 2019. And we all know at that era that it was all about tariffs back then, much like today. It seems like we have a bit of a repeat. President

Trump back then was the first tariff man. But for me, what I saw at that moment was— maybe it was later in 2018, '19. And probably the first instance was— the administration's efforts to use export controls for chips with Huawei, that it was more than just about tariffs, right? And the instruments that governments were using were going well beyond just those very simple things that we were spending so much of our time focused on back then. The initial rollout, if you remember, of those export controls in 2019 was very chaotic.

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And once you started to dig into it, you realized, wow, to use these other policies and instruments effectively, you really need to understand supply chains. You can't impose export controls on things and have them be effective if we don't actually make them here in the United States. And at that time, it wasn't well known that the chips that we were trying to restrict from selling to Huawei were not actually made in the United States. Now we all know this. They're made— the high-end chips are made by TSMC in Taiwan. But back then, That was not clear. And when you use these sorts of policies, you need to make sure to have your partners and allies on board and implementing the same sorts of policies. Otherwise, you'll simply get backfilling. And your competitors out there will simply provide the chips or the designs instead. So it turned out that to be— as you started to look at these other policies that were being used, first it was export controls, then Later on, when things turned into the Biden administration, you would have the CHIPS Act and the Inflation Reduction Act. You all of a sudden needed to not only understand these supply chains, but also how to construct subsidies and industrial policy to implement the effective actions that you wanted to achieve as well.

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So working in those areas, I sort of began to see some of the interrelationships and that what was going on in the world wasn't just about tariffs. It was also about export controls. It was also about subsidies. And then as we have seen more recently, things like stockpiling have come to the fore as well. When you're suddenly subject to potential shortages, and whether it's because of things that other countries are doing out there in the world or what we all experienced during the pandemic, suddenly stockpiling becomes an issue that is of concern too. In any case, Seeing all these policies flowing around in the world and working on them made me sort of realize that this is how the world has fundamentally changed. And we're now in a place where we need to better understand it. So then I went into government. I went into the Biden administration toward the very end in 2024. So I wasn't there when the CHIPS Act came along or when the Inflation Reduction Production Act came along. But as I was trying to engage on these issues with both policymakers in the United States across the other parts of the administration or in Congress, or when I was going out and engaging with the world and my counterparts around the world, trying to explain to them what was going on, there was no guide.

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There was no manual. There was no off-the-shelf thing that said, just read this and you will understand what's been happening. So I think that was the first instance, in my mind at least, that I realized, wow, the world doesn't understand what's happening, and we really need to have something written down. OK, so one last story before I turn it over to Soumaya. And that's just a little bit about one of the chapters that we have in the book about vulnerabilities. So the book is very much a guide to how to engage in this trade war that we are now fighting, all of us. But part of that is understanding your own strengths, your own vulnerabilities, whether you're a company or a government, right? And my first experience of this wasn't recently. It was the first time I was in government back in 2010 in the Obama administration in March of— well, March of 2011, actually. And if we all remember, that was the Fukushima disaster, right, the earthquake. The tsunami, and the potential nuclear incident that all had us on pins and needles for many, many months. Well, I was the senior trade economist at the Council of Economic Advisers.

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And it was my job to write a memo to the President of the United States explaining what— how, through supply chains, this— potential crisis in Japan was going to impact the US economy. Let's just say it was a very short memo. Because back then, we really didn't have a lot of data on these things. We didn't have data on value-added trade. We didn't have a lot of good data on supply chains. And as I'm looking around the room to people that work at companies that engage in the space, you know this better than anyone. I think that was the first shock that really told policymakers and companies how little we actually understood about some of our supply chains. Fast forward 10 or 15 years later, then we have the pandemic. We've got shortages. And all of a sudden, governments all over the world are worried about their supply chain vulnerabilities. And sometimes it's for rather mundane products. Are we going to get enough toilet paper? But other times, it was more serious things like, are we going to get enough chips? Are we going to get enough semiconductors so that our auto sector doesn't shut down?

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Why are these shortages happening? Suddenly, policymakers became very interested in this. And so the nerds in government agencies here in the United States, but in lots of countries around the world, got to work using the best data that we had available to try to better understand our vulnerabilities and our dependencies to help inform policymakers about what those were so that they could make better-informed decisions about potential policy. But while that revealed many useful insights, it also revealed that we also don't know a lot, or there's a lot that we still don't know even when we have the best data available to us. And let me identify, I think, 3 major concerns based on my experience of working with that data and trying to advise policymakers on our vulnerabilities. They kind of come from the question of, Well, if we don't know, certainly the companies know. And can't they just take care of these problems themselves? Why does the government actually need to intervene in a way to either create more information or to incentivize companies through policies? Why can't they deal with these supply chain vulnerabilities, being too reliant on particular countries, whether it's China or Russia, if you're thinking about Europe and oil?

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Why can't they just think about this for themselves? So let me give you 3 reasons. The first may be that the companies think that if things go wrong, the government might just bail them out. And if all of my competitors are doing the same thing, the government will just step in and do something for us and help fix the problem. If it's a foreign policy problem, they'll negotiate with the trading partner to resolve the problem. If it's we need to create more sources of supply, maybe they'll subsidize it for us, but we don't need to deal with this on our own. That's one reason. Second is supply chains are really complicated. And oftentimes, the companies in the supply chains don't want to share this information. So we talked with a lot of companies in auto sector, pharmaceuticals, semiconductors for the book. You talk to the big companies, and you ask them, well, when you go to your tier 2, tier 3 suppliers, and you ask how vulnerable— tell us about where you're sourcing these things, The companies will often say they won't tell us. Our suppliers won't provide that information to us because they're worried that we might use it against them, in effect.

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We might cut them out of our supply chain, go right to their suppliers, and get the stuff from them instead. So you can see that the companies themselves oftentimes don't have the information or ways to get access to the information that they might actually need. And then the last reason is even if they had the information, Oftentimes, they might not be able to do anything about it in the sense that we think about rare earths, or permanent magnets, or some of these other extreme dependencies that we're all keenly aware of today. China supplies 90-plus percent of these things. It's not like there are obvious alternative suppliers out there that you just say, oh, company, go find— use them instead. There isn't a them instead to go and use. It really is a collective action problem where these alternative sources of supply sometimes need to be created somehow. And that requires the assistance of policy and policymakers. So in any case, it wasn't as easy, I think, as perhaps I or others had anticipated. OK, let me really conclude. And before I do, thank you again, everybody, for coming. Someone did ask me, why did I write this book?

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Why did I do this book? And the real answer to why I did this book was the opportunity again to work with Soumaya Keynes, who's gonna come up next. Soumaya is a brilliant analytical economist. She's an incredible writer, and she is an amazing storyteller. And what she has done in this book through her writing is what I think of as a global public good. This is something the world really needs to understand. And when you have the opportunity to work with someone as amazing as her, you never say no. Who wouldn't want to be a part of that, right? Anyway, so let me turn it over to Samantha. Thank you. So just like we used to do on the podcast, while she is trying to find her notes that I was supposed to print out for her but didn't actually do so, I will stall for time and tell jokes. No jokes?

[00:21:52.14] - Soumaya Keynes

Go away.

[00:21:52.53]

Yeah?

[00:21:53.28] - Chad P. Bown

You got the notes?

[00:21:54.07] - Soumaya Keynes

Yeah.

[00:21:54.44]

Yeah.

[00:21:56.11]

Great. OK, I only pay Chad a modest amount to say all those nice things. And so we can go on.

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Okay, great.

[00:22:04.01]

Hi everyone. It's really great to be here. Okay, so I don't tend to make New Year's resolutions. What I try to do at the beginning of every year is to write out goals. And so in 2025, my goals included write some songs, watch 10 movies, I was aiming high, have a baby, and think of book ideas. And the last one of those got a little bit out of hand, and here we are today. Okay, so I wanted to write a book with Chad that I thought didn't exist. I, you know, there's narrative nonfiction out there. I was open to becoming the next, you know, the Michael Lewis of trade policy. The newborn was a barrier to that. There's also, you know, books explaining how globalization is awesome, and if only we helped the people who were left behind, everything would be great. Everything would be okay. I didn't want to write that book. There's books saying that protectionism is the best thing ever. Also didn't want to write that book. What I wanted to do was try to explore the complexity and the nuance and the difficulty of the situation that we're in now. A lot of the debate about trade is people screaming at each other from opposite ends of the spectrum.

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I wanted to, to to be that voice of reason in the middle, to treat readers like grown-ups, to try and explain what was going on, why it's hard. Because I believed in readers. I think the readers can grasp that complexity. And I also wanted to make sure that we were framing these trade wars correctly. So, you know, during Trump's first term, I think that, you know, some of us were so keen to explain that bilateral trade deficits were a dumb thing to target that we didn't have the bigger argument about, you know, maybe actually the overall trade deficit or the current account deficit is a risk to the US. Maybe China's massive current account surplus is a challenge. Trump made the conversation about US manufacturing jobs, and everyone defaulted to explaining why targeting manufacturing jobs is a dumb thing to do, because of course automation is a big deal. And that meant that we didn't have, I think, the important discussion about actually whether a manufacturing sector is an important thing, whether it comes with innovation or strategic advantages. And so there was crowd out, right? Trump kind of distracted us from, I think, real questions we should have been thinking about.

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So this is the book, I think, to try and set out the context. It's not a book about Trump because who knows what Trump's going to do.

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It's a book about the context.

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It's meant to help you understand to understand where things go next and where things go after Trump. And you know, I worry right now that we are in Trump world and everyone over the next few months, we're gonna see tariffs go up again, they're gonna rebuild the tariff wall and everyone's gonna be screaming about tariffs and how they're taxes on Americans and how it's all terrible. And what's gonna get missed in that fight is that maybe sometimes tariffs are a horrible tool, but sometimes they might be necessary, done in the right way. And that, to tackle the challenges that we face. And Trump is gonna stop us from having that argument because he's gonna put tariffs on people he shouldn't be putting tariffs on. But, and so what I hope we can do is try to shift that debate or shift the framing to focus on, I think, the bigger, longer-term structural problems, as well as criticizing Trump a bit for putting tariffs on the wrong people, that's fine. Okay, so what should we be doing? How do you win a trade war? Derek Thompson is a commentator, and he wrote a recent piece about how no one buys nonfiction anymore.

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And the theory is that no one bothers buying books because they can just listen to the podcast version. And I'm very aware that you might listen to what I'm saying and think, well, I don't really need to read the book anymore. I've heard the summary, I've got the memo. So I'm not gonna summarize the book for you. And that is in keeping with the general message of the book, which is to win a trade war, logistics win trade wars. Prep wins trade wars. You need to put in the work. You can't just go for the one sentence, tariffs are great, and hope for the best. You got to make the effort. I will talk about the structure. So the premise of the book is that you, the reader, really want to fight a trade war. And you come to us, the two reluctant trade nerds, to ask How? And we are very, you know, we are scared, we're anxious, 'cause we know from the evidence how bad the tools are that we have at our disposal, how blunt those weapons are when fighting a trade war. But if you're gonna do it, and we agree that as Chad laid out, maybe you have to do it, we need to draw on the best evidence that we have and be aware of all of the unintended consequences of these tools.

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So that's where we start. And then what we do is we outline the stakes in a trade war, so peace and prosperity. We introduce you to the players in a trade war, so governments, companies, people. And one of the themes there is that you've got soldiers on the trade war battlefield.

Everyone's very bad at cooperating. So a bit of a secret into the process of book writing between Soumaya and Chad is we fought a lot. And one of the reasons is that Chad's go-to go-to point is that everyone just needs to work together. Everyone needs to hug and cooperate and it'll all be great. And I was the cynic saying, oh, they don't, they're rubbish. Um, why, you know, and so everyone's slamming Trump for not working with allies. Why aren't the allies getting more heat for not cooperating, uh, and working together themselves? They face this common challenge. Why is it always down to the Americans, uh, to beat everyone else to work together? And sometimes I get some of the frustration from people within the Trump administration who just kind of roll their eyes at the slowness of some of America's trading partners.

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Okay, so that's the players. Then there's the rules, so why they broke down. So at a macro level, global imbalances, trade deficits, and then at a micro level. So very sorry to the WTO, but I'm not sure that the rules-based system is going to help us with China's subsidies. It's a very deep problem. I apologize. I feel very sad about it. Then after all of that, we go through the defense. So you've got to think about vulnerabilities as Chad was describing. You've got to stockpile. I had a really great time on the Reddit Preppers forum seeing what lessons that people preparing for the apocalypse could teach us about preparing for trade wars today. A lot. Um, and then, uh, subsidies. Um, we need to be humble, we do not know how to use these well, but again, we need to try and do it better. Um, uh, yeah. And then finally, we talk about the attack, right? So tariffs and export controls. And don't worry, we don't think tariffs are amazing. Um, uh, again, we do think there are cases where you might have to use them, but you've got to be careful of the unintended consequences, right?

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And so it's a history of where these things, you know, can have the effects you want, but also, you know, we talk about it as treating them like drugs, right? They're addictive, they're, you know, they're not gonna fix your personality, but in some cases, in moderate doses, you know, a doctor may prescribe you some. Okay, so the point there is that there are lots of tools that historically we've looked at and said, ugh, these are really terrible. But in a trade war, everyone's fighting dirty. And so we can't be having the argument about whether we should be using these tools. We need to be thinking about the next question, which is, if we're going to use these tools, how do we get from a fourth best situation to a third best situation? Because that's That's the world we're in. Okay, I'm gonna finish by pulling out one story from the book. And before I do that, I just want to— well, so this story is based on the research by this great professor, great— well, he's called John Minnick at the LSE, and then the work of a historian called Daniel Headrick, who's done— who wrote an incredible book on— called The Invisible Weapon, on the history of communications towards the end of the 19th century.

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And my aside was going to be that, you know, the acknowledgements section lists a lot of people in the book. There are many people who weren't listed. There are many people who in this room who we spoke to, and you know who you are, and we are so grateful. You know, our names are on the front of the book, but this is a real team effort and we hope we did you proud. So yeah, thank you. This builds on, this builds on the work of others. Okay, so late 1900s. Um, Britain had massive dominance in international communications, so telegraph cables. They essentially controlled the majority of the world telegraph cables, um, uh, and that gave them power, right? So when it came to international conflicts, they could, they could surveil international communications, and they could also censor international communications., and they did this during the Boer War, right? And other governments were not happy about this at all. They were not happy about being reliant on this dominant actor that was abusing its dominance. And so what the Germans did is they teamed up with the Dutch and they said, okay, well, we're gonna build our own rival network.

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Um, we are going to escape, uh, this dominance. Um, and also they turned to innovation. They said, look, there's wireless radio. Right, that isn't so reliant on telegraph cables. Why don't we rely on that instead? Right, so, you know, necessity is the mother of invention. Let's go with that. And you can see the obvious parallels with today, right? We have, you know, the Chinese weaponizing their dominance in rare earths. We've got the Americans weaponizing their dominance in semiconductor technology. And, you know, the lesson could be that these export restrictions are one-shot weapons. Right? By using the weapon, you're forcing the target to build their defense. You're forcing them to wriggle out of your reach, and eventually that means that your weapon will become blunt and won't work. So the rest of that story about Britain and the telegraph cables is that essentially what Britain did— well, so, so, Let's just think about this from the Germans' perspective. So that telegraph network was a massive feat of engineering. They had a huge advantage. They'd gone first, and there were technological barriers to entry. It was not trivial for the Germans to build their own rival network.

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And also, they had to contend with the fact that the Brits could see that the Germans wanted to build a rival network, an alternative, and the Brits weren't happy about it. Um, and so they reacted. So when the Germans asked for permission to land their cables in various countries around the world, those other countries were worried that the Brits would be upset, and the Brits were like, yeah, we're upset, no. And so essentially, the Germans were restricted in their ability to build a rival telegraph network. So the point of this is that, you know, there are factors that generate that initial market dominance, right? And those— the same factors are the ones that make that dominance hard to escape. It's all part of the same story. And, you know, if the lesson is if you apply an export restriction and the target can move, so can the act of applying the export restriction, right? This is, this is a dynamic game. It's not just a two-stage game. There are more stages. And so, you know, I think the, the, the conclusion from that, or the, the outcome I worry about, is that we're all going to be firing these weapons for a very long time.

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We're going to be in a chaotic situation for a very long time because China's chokehold on rare earths and American dominance in semiconductors are not something— they're not— it's not obvious who is going to be able to escape from the other first. It's not obvious how long that's going to take. And so we could find ourselves locked in these trade battles for a very long time. And okay, so John, when we were on Jon Stewart, We were on Jon Stewart. He questioned whether the subtitle of the book was really that accurate. So it's "An Optimistic Guide to an Anxious Global Economy." And really what we were trying to do with optimistic is try to communicate that there are some jokes in the book. This isn't a polemic, you know, look how terrible the world is. We're trying to make this as light as possible. And I suppose it's a bit pessimistic in that we do think that there is no neat way out of these trade conflicts. The optimistic take is that we're trying to be constructive. We're trying to say, well, there are some things you could do. There is a better way of doing this and a worse way.

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And if we educate ourselves, if we wise up, if we look to see what others are doing, if we work with allies, as Chad always likes to say we should, maybe we can do it a bit better. In, you know, this era of economic conflict that we find ourselves in. And maybe, I think in maybe in 2050, I put in the book, maybe we'll get to a more lasting peace. Thank you. Great.

[00:36:06.19] - Inu Manak

Well, glad to be here and with such a great crowd. Soumaya, Chad, thank you so much for this overview of your book. I know you just gave a sneak peek, and I hope Greg and I can dive in a bit more. And also, what motivated you to write it? I think that it's great to be here to really set the stage for what I think is going to be a lively discussion on a topic that honestly could not have better timing. So let me outline the main takeaways that I took from the book and then turn to some of my reflections to animate a discussion. Before I dive in, let me just say that this was a fun read, and I urge all of you to take it to the beach if you're going to take it on Memorial Day weekend coming up. Now, maybe I'm just too much of a trade nerd for saying that, but I appreciated the tone. It made me feel like we were just hanging out on the patio, maybe having a little drink and chatting about these awesome topics in trade, some a little depressing, but I like the optimistic spin.

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I also enjoyed the metaphors and the anecdotes from ships to cooking tips. I was amazed how you stretched that one. It really helped to make the topic incredibly accessible. I find often that as trade experts, we sometimes appear a bit exasperated. It's not just because we live in DC. We use acronyms like TBT, SPS, TRIPS, and TRIMS, and we spend our evenings reading the annexes of trade agreements. Okay, maybe not everyone does the second part, but I know a lot of us do. And I think what you've both been able to do with this book is to take all the things that us trade nerds geek out about on a regular basis and make sense of it through clear and careful analysis of the arguments and the data that shape today's most central debates. And for that, I congratulate you both. Your book is also a salve for anxious times as companies, governments, and people navigate these tectonic shifts in trade policy that we've kind of been going through for many years now. You're outlining the challenges, providing tips on how to handle them, and laying out the scenarios of what may happen next. Now, if you take all of those items together, 3 big themes to me emerge.

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And now I'm going to walk through each of them. The first, how we got here, specifically the trade backlash. It is not a neat story. We know that the benefits of trade are widespread and that the costs are concentrated. We also know that trade is just not a topic that most people care to talk about. So the narrative that economic grievances, too, towards trade fueled US protectionism doesn't really hold up well in the data. This leaves us with a really uncomfortable observation that you two point out really well, that people's views on economic matters are really an expression of their political identities, influenced or triggered by a lot of slow-burning forces, such as nationalism, racism, and the urge to win. The second theme: you can't reduce trade wars to personal spats between players. Now, while the US-China rivalry has been a central feature of trade policy debates for years now, the forces driving US frustration towards a trading system are not just about China. And balancing trade will not get rid of all of those tensions. Now, the United States has held grievances with many countries, We have the National Trade Estimates report to prove that.

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From regulatory barriers in Europe to supply management in Canada, there is a lot to grouse about. But those frustrations also can't be reduced to concerns over the trade deficit, a topic that we seem to be talking a lot about these days. There are bigger issues at play here, including whether governments prioritize savings over investment. As Sumaiye mentioned. These questions require very different policy tools. The third theme that I noted was that China's economic system is so different that there is almost no space for common rules. While rules would be great, Sumaiye and Chad argue that the rules-based system is simply not working and that there is no clear indication of what it would take to make China sign up to more stringent commitments. They devote a good amount of space to one of my favorite topics, international subsidies rules, and question the WTO's ability to refresh its playbook. They propose a solution which is twofold, and I'll get into this later. On the one hand, having the United States learn a little bit from China and do a bit of dabbling in industrial policy itself. And on the other hand, a different rulebook is needed on how to manage trade.

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I'd like to spend a bit of time on each of these themes a little bit more and offer a few of my first initial reactions. So I've spent a fair amount of time agonizing over why trade policy has seemingly gone astray and agree that economic explanations don't really cut it. And my deep apologies to the economists in the room for saying that, but folks just don't spend a lot of time thinking about foreign economic policy. And even if you leave that aside, research in political science shows that status threats— that is, a perception of one group's status declining relative to others— provides a strong explanation for the current globalization malaise, as opposed to a lot of pocketbook issues that we often hear about. In polling that I conducted earlier this year, I also found that Americans don't hold negative views about trade. And 3 things stood out from that survey. First, and this is likely due to the Liberation Day tariffs, which were very large on the news cycle, but Americans today are actually pretty well-informed about tariffs and generally understand their impact. Nearly half of Americans view tariffs as a tax on foreign products, and 42% say that tariffs primarily raise prices.

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Furthermore, 68% of Americans see trade as a two-way street. Meaning that they think the primary goal of trade is actually to enable buying and selling things between countries. The second finding was that Americans actually support trade with different countries to varying degrees, but generally favor cooperation over confrontation. That's for you, Chad. They are more comfortable importing products deemed essential to national security from certain countries, especially their NATO allies. So as Sumeya and Chad observed, It's easier to tackle challenges with friends, and Americans overwhelmingly seem to agree. The third point was that Americans are willing to accept some protective measures. They don't think that we live in a perfect world and that sometimes you need some guardrails, but they also think that those actions require clear objectives and some guardrails themselves. So even as we see that security seems to be filtering into a lot of trade discussions, Americans have a lot of nuanced views on this, and they don't want to throw everything into this new bucket called economic security. They agree, for example, that products with a military use or application qualify as being something critical to national security. But they are far more skeptical of two things: products that could be used for US manufacturing and those that fight climate change.

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I found that fairly surprising. Now, I think it's important to note that the views on trade that folks hold are strongly influenced by partisanship and elite cues. A free trader yesterday could be tomorrow's protectionist, depending on a lot of the messaging that they're getting from the party leaders and from the top. What this tells us is that when reflecting on the causes of current policy shifts, we should be mindful of the many different factors that are shaping them. It is also a bit of a note of caution for policymakers looking for solutions to voter dissatisfaction. Now, turning to the second theme, I would agree that trade wars are more than just about two rivals. There have been longstanding trade disputes and frictions over many different policy approaches. We all remember the Boeing-Airbus saga and the great chlorinated chicken debates of the Transatlantic Trade and Investment Partnership. I bet you never thought I would mention TTIP again. Progress on negotiations at the WTO have not always gone well when it comes to the most sticky issues like agriculture or subsidies. And if you look at the issue of China itself and how to address the problems of China's market dominance, there has been little coordination on how to address these issues with governments and firms approaching a lot of these subjects and risks of engagement with China very, very differently.

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The second Trump administration's approach, as we have seen so far, has been to unilaterally coerce their allies to work with the United States under the threat of tariffs and many other punishments. It's not entirely clear to me yet whether this approach is going to pay off. And while many US trading partners have been pretty accommodating so far, at the same time, we're also witnessing a renewed energy towards diversifying trade relations. Even India, I am shocked to admit, often allergic to trade openness, is cutting deals around the world. And while the United States has turned away from the principle of MFN, other countries are doubling down. I point this out because while all eyes were on the China-US summit last week, I think a more interesting story is unfolding elsewhere. With the United States sidelining its allies, they are looking for alternative ways to organize their economic relations. And as the US is preoccupied with counting soybean exports and its aircraft purchases, others are going to be looking for ways to reform the trading system through a range of bilateral, plurilateral, and multilateral efforts. And this brings me to that third theme of the book. And I think this is the one we're going to have a very interesting debate about, because the system, as you claim, is just not working with China in it.

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And I agree, China is a big problem. And the solution could lie in managing that relationship a little bit better, as well as copying some of China's behavior, or rather learning the lessons from its approach to industrial policy. So this is where I'm going to offer a bit of an alternative take. I know you did not see this coming at all. But I think the problem of how the system adjusts to address the very real problems that such a dominant market poses offers a lot of insights in how we can think about how we can address some of these issues and think about the role of US industrial policy in it. Now, maybe I'm an optimist too, or I've just spent way too much time in my life looking at institutional continuity and change and what happens when institutions actually see shifts. And I had to make a wager on this. I would say that the rules-based system may be OK. It's going to be a little beat up. It's probably going to be a little disheveled. Its shirt will be untucked in the next couple of years. But it's going to keep moving forward.

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The WTO is not the only place where new rules can emerge. And I think we're seeing plenty of experimentation in varying regional and pan-regional efforts. Furthermore, I haven't seen any clear proposals from this administration, or for that matter, even the past two, on how to rethink those basic rules. It has been years of airing complaints, but little creative thinking on how to put some of these ideas into action and to address them in a very durable way. And yes, I think as we've seen from the trade deals as well that have been signed by the current administration, they are filled with references to the very rules-based system that they harp against. If it's not working, why on earth should the United States mention those rules as models to follow? In its new agreements. One last point on this. Getting industrial policy right— I think we're going to have a good discussion on this. I think it's not so straightforward. And I think it's important for us to grapple with this, to figure out why this is so hard and what we can do to make it better. Perhaps it's just as backbreaking work as controlling your country's economic relationships, as this administration is trying to do right now.

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US industrial policy to date has been, by and large, focused— in a really inward fashion. Working with allies is actually really essential here. But as Sumeya and Chad are correct to point out, scale requires partnerships, but it also requires trust. And we might be missing both at this moment. So we have to be careful in the future when we think about what these interventions could look like, who our partners should be, and think about also how we craft industrial policy in terms that we clearly define what is an area critical for government intervention and what is not. Now, while it is too early to tell where the current administration's policy will lead us, the patterns that have emerged in the last year present a significant evolution of US industrial policy that leans far more heavily on the executive branch than past iterations of US industrial policy. Now, we need to ask ourselves as as political scientists, as economists, as policy folks, and as businesses, whether that reflects our country's economic and political values. And that's another question that we really need to address. Okay, I think I've covered a ton here, but you two have given me a tremendous amount to think about, and I'm so excited to share this discussion with you, and I had a great time reading the book.

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I do want to end my reflections with one final observation, which kind of touches on Jon Stewart's point. So I'm glad you brought up the subtitle of your book. You say that this is an anxious guide to the global economy. We're all anxious, and we all need a bit of a guide. And I guess the big question I have in the end— maybe there's 3 questions here— is a world of managed trade the best we can really hope for right now? Or is it the only path that seems visible at this moment? Will Americans' expanding knowledge of the cost of trade protectionism lead to countervailing pressures down the road that nudge for a course correction? Or will some yet unknown exogenous shock alter the threat perceptions that we face once again? Whatever happens, I think the future is incredibly fluid. Sumeya and Chad have done a fantastic job helping us see one future that is possible. And I welcome a discussion not just today, but in the many years that follow about what other futures could possibly emerge. Thank you.

[00:51:14.43] - Greg Ip

Thanks very much, and Soumaya and Chad, thank you for writing this book. Thank you, I really mean that. And you framed it exactly the right way, you know, you said, as you say, as you note, the idea that There can be a winner of a trade war is antithetical to everything we've learned about economics, which is all about gains from trade, right? I mean, at a micro and a macro level. And truth be told, if 10 years ago you had asked— Chad, if you had asked us to raise our hands, who thinks you can win a trade war? No. I would have put my hand up for no. But today I didn't, because I've undergone, like many of you, a change in my thinking about this.

You can and sometimes must win a trade war, because even if you don't want war, If war is brought to you, you must respond. So this is a very useful conversation to have. And this is an extremely valuable book to help us with that conversation. Because in each of your chapters, you tackle one of the aspects of a trade war. Who are the warriors in that trade war, the participants?

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The governments, companies, the public? What are the weapons of trade war? The use of subsidies, of stockpiles, of import restrictions. And export restrictions. And I'll say this really sort of helped my thinking because I've been writing a lot of columns as my own thinking has evolved. And it's nice to have it kind of laid out in this sort of structural way and also to see other people are thinking the same way. And that, if anything, you guys have actually come to a more nuanced place than I have. So with that as my jumping off point, I'm going to observe that there are really two trade wars underway right now. One was started by China, one was started by the United States.. And you can't see them in isolation. So I want to talk about how they got started, and who's winning, and where they're going. First, China. They started the trade war, full stop. They joined the World Trade Organization. They said all the right things. They even passed some of the right laws. But as Chad and Inu have pointed out, they never really believed in the premise of it. They don't believe in things like mutual gains from trade.

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They don't think that— the system that especially has flowered under Xi Jinping basically violates all the premises that founded the World World Trade Organization. We believe that the purpose of exports is to import. They do not. We believe that sustained trade surpluses are harmful to your own economy. They do not. We believe that the idea of trade is to allow more specialization. They do not. They believe in autarky. They want to basically make everything. We believe that mutual dependency is actually something worth having in exchange for the gains of trade. They do not. They want to basically remove all dependence on foreign imports. While making foreigners dependent on us. This is, needless to say, a system and a philosophy so antithetical to everything on which the WTO has been founded, it's almost surprising to think today that China was allowed into the WTO. So how do we come to the US trade war? I've always long believed that Trump did not start the trade war. It was a reaction to a trade war that China started. Now, Trump, he's a bit sui generis. He has always been a protectionist. You read anything he's written back to the '70s or '80s.

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Always been a believer in tariffs, a very China-like mercantilist view of trade that imports are like losing. But over the course of his first term, his rejection of the '44 to 2016 consensus for liberalization became much more an accepted and bipartisan view. And the main reason was this recognition that China had broken the rules of the game. And that if we played by the rules and they didn't, the result would be this hollowing out of our industrial base. Systematic loss of process and technological knowledge, and surrendering of lead on technologies that are crucial to both economic and military success. And that's the reason I say that you must win a trade war, because even if you don't believe in such a thing, if somebody else starts a trade war, you may not allow yourself to lose. And therefore, it became a bipartisan consensus that we should reject some elements of that, like, postwar rules-based consensus. Tariffs and export controls are acceptable in some cases. The WTO may be too burdened a structure, too captured to adequately deal with China's rule-breaking or the unique needs of the United States. So in his second term, though, Trump has moved well beyond that original new consensus that he helped initiate.

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It's no longer trade war against China, but trade war against everybody. It's not aimed at protecting key industries, but protecting all industries and bringing them back, not just semiconductors. But steel, aluminum, cars, pencils, Barbie dolls, lumber. And using trade war as a tool to remake international security arrangements with a threat use of tariffs to force a handover of Greenland, the annexation of Canada, or ending the prosecution of Brazilian President Jair Bolsonaro. No tariffs or sanctions on Russia as a reward for helping them come to a ceasefire with Ukraine. This all goes well beyond the consensus that he managed to fashion in his first term and is why there's so much more conflict and disagreement with him, both internally in the United States and internationally, about that second term. So what are the outcomes of these trade wars? So I'll start with the US. I think one of the chapters I liked most was where you talk about the problem, essentially the tragedy of the commons, or the collective action problem. They lay out the problem, which is that the rest of the world united could retaliate and change China's calculus, or for that matter, Trump's calculus, because collectively they are larger.

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Divided, they could not, because the incentives are all to make a deal. And so, as they did with China in the old times, they did with Trump in the current times. And exactly the same calculus applies to how individual companies behave, is that essentially, to maximize your own interest requires you to sacrifice the common interest. And the result is a system today that was largely remade along the lines that Trump wanted without the trade war that followed the Smoot-

Hawley tariff of the 1930s or any significant penalty paid in financial markets. Now, as far as results go, well, we haven't had any appreciable reduction in the trade deficit. We have had a revival in manufacturing, but it's been mostly a spillover from the AI boom rather than evidence of reshoring. And security benefits, Eh, not so much. Europe did not take kindly to us demanding Greenland. And things kind of went downhill from there. Canada did not wish to be the 51st state. Russia has not agreed to a ceasefire in Ukraine. So sitting here in the US, from what I hope is as impartial a point of view as I can achieve, I would say that the verdict on Trump Trade War 2.0 is very, very ambiguous at this point.

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No huge harms evident, but no great or important goals achieved. Now, what about China's trade war? How's that going? The greatest drawback of Trump 2.0's version of trade war, I think, is its failure to follow through on the premise of trade war of Trump 1.0, which is to respond cogently and forcefully to the trade war that China initiated. Now, I don't want to be entirely negative here, because I think actually in Trump 2.0, he has taken important steps on this front, and arguably some steps that perhaps only Trump could have done. So for example, there actually have been some moderate— modest but important steps towards creating a buyers club between the United States and its partner countries on rare earths. If you look at some of the bilateral agreements that James N. Greer, the Trade Ambassador, has negotiated, they include interesting provisions such as with Malaysia, a commitment to essentially adopt equivalent restrictions that the United States may have, a way of us essentially internationalizing our restrictions on sensitive technology with respect to China. And in the negotiations on USMCA, establishing tougher rules of origin so that China cannot use Canada and Mexico as backdoors to the American or North American market is very front and center.

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So I do want to sort of recognize at the outset that there are those positive things that are happening under the Trump administration. But I would have to say that when you step back and look at the overall picture of China is that it hasn't really is that it's kind of continued in China's direction. Their market share in global manufacturing has grown. Their trade surplus is now headed, I think, for something like 1.2% of global GDP, which is a single trade surplus that the world has never seen since at least the 1930s, since we've had records begin. There simply is no record. There is no precedent. And as its market share has grown, so has its ability to weaponize its position in supply chains. There's a very good report that looked at this by the Rhodium Group sponsored by the US Chamber of Commerce. It came out a couple of weeks ago. I wrote about it last week. But essentially what it establishes is that China has now achieved 50% plus market shares in so many industries that they essentially have veto power over countless choke points through global supply chains. Yes, the US-China bilateral trade deficit has declined, but the trade deficit between the rest of the world and China has grown, which simply shows that much of what China produces has gone to third countries, and that is where the market share domination is taking place.

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And even when you set aside the issue of pure goods and services or anything that has an SAI, you know, a NAICS code or a Harmonized Tariff Schedule line, if you look at the things like the spread of standards, like we are now looking at a world where Chinese software, Chinese AI, and so forth is becoming competitive and potentially more attractive than its American commitments. We're looking at a world where Chinese standards could supplant American standards. So going back to the point, Sumia, you and Chad made about the need for allies and the difficulty of establishing that, I would first of all stipulate that it has never been easy for the United States to get its allies on board when dealing with unfair trading practices, because exactly the dynamic you identify is that it is always narrowly and in one country's best interest to cut its own deal with China. And we saw that in spades with Europe, and we've seen it with other countries as well. But it certainly hasn't been— but I think one of the ironies is that just as the rest of the world was beginning to see China as the kind of threat that the United States does— and we saw that, for example, especially in Germany.

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Von der Leyen, who's become very hawkish on China, Trump decided to adopt this go-it-alone policy that essentially rejected the very premise that you would want to work with your allies on this. And allies have responded as you might expect, is that faced with the prospect of losing cooperation or access to the US market, it is too costly to therefore reject access or cooperation with China. Canada has done its own small deal with electric vehicles with respect to China in order to get relief from Chinese sanctions against Canadian agricultural products. The Netherlands tried to actually adopt its own version of export war, like tried to kick out the Chinese owner of a semiconductor company. And they had to basically back off when China basically embargoed the export of those semiconductors, crippling the auto industry in Europe and partially the United States. China has used its control, especially in rare earths, to threaten the EU that if if they should try and impose tariffs on the United States. They forced Trump into a trade truce by weaponizing the rare earths. There's a nugget in your book. This book is, by the way, full of great little nuggets, right?

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And I'm going to be quoting them for a very long time, probably not with proper credit. But one of my favorite was that as part of China's new export controls on rare earths, they forbid the stockpiling of them by their customers. So one of the defenses that we might actually have against China they have literally forbidden. And I mean, that is the world we live in. Now, I don't know what is on the mind of Xi Jinping or the remainder of the Standing Committee of the Politburo. But I think from their point of view, they must be pretty happy with where their trade war is going. Now, I can think of two reasons why, in the long run, this strategy could fail. The first is, and I think Soumeya, you touched on this again with your lovely story about the US and the telegraph, is that as soon as you turn something into a choke point or a weapon, you have sent the rest of the world to try and find a way around that. So when Russia weaponized its shipments of LNG to Western Europe, we saw Germany of all countries in record time build an LNG terminal to basically get away from Russian controls.

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And now Europe basically imports no LNG from Russia and has significantly reduced that chokepoint effect, result being that Russia's sort of ability to weaponize that is gone. Another factoid from your book: Japan, through a very concerted effort, has reduced its dependence on Chinese rare earths from 90% to 60%. Europe now is sort of looking at something called the Industrial Accelerator Act to try and take more forceful action against the Chinese. We'll see where that goes. The second reason to be a little suspicious is that all the economists tell us that their model is irrational and unsustainable, that it's too costly, that it's creating too many— too much— that this consumption, this low-consumption model is causing too much hardship for the Chinese. And so eventually this model will fail. But I like to paraphrase Keynes— not this Keynes, but the other Keynes— that that is all true. The model is irrational, but China can stay irrational longer than its foreign competitors can stay solvent. That's what I worry about. So thank you very much for writing this book and giving us so much to think about. OK.

[01:05:08.50] - Chad P. Bown

So first, a huge thanks to Inu and Greg. I was writing down copiously all the things they said, because I think in many respects, they said things in a way that I was like, we should have put that in the book. That was a great way of articulating it. So thank you for reading it so carefully and having such great suggestions and provocative ideas. Second, this book is not super long. It's short. You can read it on a beach. And we invite you to. But as good as we were at writing a very short book, I was very bad at organizing a very short event. We tried to pack too much in here. So we really are almost at time. And I think we have time, despite the fact that we're now here up on stage, to try to ask and answer one of the questions that the authors posed, right? So the only one I can kind of weave together to have us get to is essentially the following. And I was provoked by one of Enno's points here. Is a world of managed trade the best that we can hope for? So I'm going to ask Soumaya to do her best to answer that.

[01:06:25.38] - Soumaya Keynes

You write a book with someone, and then they throw you that. Yeah, I mean, if it's a binary choice between a rules-based system and something else, and that something else is described as managed trade, then maybe for now. When thinking about ideas of constructive things that we could do, I might redefine managed trade, right? So we think of managed trade as, I'm going to make a list of things that I want you to buy from me, and we're going to put some numbers, and you better hit those targets, otherwise I'm going to get get really annoyed. And so one thing that we proposed in our New York Times op-ed the other day was that maybe really what we're trying to do is manage the fallout, right? We're trying to manage the risks as players in the trading system try to reduce their kind of overdependencies, right? And so what about— I mean, look, we understand it's not going to happen tomorrow. But some, you know, one idea was some kind of system to essentially identify products where yes, there is a genuine problem of excessive concentration, like some sort of, you know, coordinated competition authority that's identifying areas where yes, China does have 90+ percent dominance in rare earths.

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And in those circumstances, then yeah, the US is going to take action. It's going to do things that are not within the rules to try and reduce those overdependencies. It's kind of, you know, the race is on and, and, and all the normal rules are off. The point of that is that you— that only applies to those particular products where there's a genuine market problem. So we're not trying to deal with, you know, um, uh, dominance in, in sippy cups or pineapples or, or what have you. Um, so that's, that's one idea. Do we have time to get these like a, you know, what's your answer? And if you were trying to negotiate—

[01:08:26.25] - Chad P. Bown

She's such a journalist.

[01:08:27.55] - Soumaya Keynes

Oh, yeah. I like asking questions. What would you say?

[01:08:32.11] - Inu Manak

Yeah, you know, I would agree that we're in a world where, in a way, this is sort of the reality, right? We have to find a way to manage the relationship, as you point out. The really curious thing about that relationship, which I think you've both talked about, is the fact that it's really dominated by two personalities right now, not really even the governments themselves, but people who are rash, who have certain ideas about what they should be doing, and are not willing to actually consult with a lot of their partners in making those actions. And so I think we're in a world where the fallout is, is on a lot of our partners, and they're kind of confused. About what to do about it because they're looking to the United States and saying, you usually tell us what to do. And I have to say, in the last year of talking to a lot of trading partners, many had come to me and said, why doesn't the United States just tell us what to do? We'll gladly do it. We want them to give us a guideline. And I think this is what we need, is to figure out what those guideposts should be for us to try to aim to where we need to go and figure out how we better manage the same problems that we all are sharing right now.

[01:09:45.41] - Greg Ip

I think the best and perhaps likeliest outcome is what I would call the overlapping multilateral arrangement where you don't have— where you can have free trade within a group of like-minded countries and managed trade on the outside. And so Mike Froman at the Council on Foreign Relations has called this, I think, the overlapping or competing multilateral arrangement. Plural-lateral model. You could call it the united front model or something like that. Now, right now, that's not going to happen under Trump because he is so viscerally opposed to any kind of thing that looks like free trade or optimal trade. But there will be an era post-Trump. And I think that at least my sense from listening to people on the Hill and others is that there is still a desire to get back to something where we actually do make a distinction between allies and adversaries. And as I said, I think in my own remarks, most countries had come a long way to starting to see China the way the United States did. And so I think that you're going to have the door open to it. The issue, of course, is that China, with each passing year, China's own blocking capacity grows, and its ability to stop something like that in its tracks.

[01:11:02.14] - Chad P. Bown

Great, thank you. Before we wrap, I want to say one other thing. We've talked primarily, as one does in Washington, about the United States and China. I want to reassure everyone that this is not a book about the United States and China. This is a global book. And why I think this is relevant for this conversation is, if you watch where a lot of the really interesting ideas on policy are coming out right now in terms of trying to manage the trade arrangement with China, maybe through some sort of a more principled rules-based approach, it's really Europe, right? They face many of the same dependency concerns that the United States does. And they're facing this surge of imports from China in their own right today. And they're trying to figure out, can we craft some rules and principles domestically to manage this relationship differently from how we have done so in the past? We'll see how they do. We cover many of those related concerns in the book from the Europeans' perspective as well. But I think that's something to watch. With that, I want to thank everybody online for joining us, everybody in the room for joining us.

[01:12:05.41]

We are so excited to throw this book out to the world. And we hope it starts a conversation about how it is that we can all win a trade war. Thank you.

[01:12:15.40] - Soumaya Keynes

Don't leave.

[01:12:20.38] - Chad P. Bown

Don't leave.