

## REVIEW

# Does the United States Have the Weapons for Trade War?

Economic strategists are pitching tougher policies for an anxious world.

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By **Bob Davis**

Exactly when Washington soured for good on free trade is an open question. Maybe it was in 2008 under George W. Bush, when the United States couldn't prevent India from blowing up the [Doha](#) global trade negotiations. Or maybe it was 2016, when both presidential candidates opposed the [Trans Pacific Partnership](#), a last gasp effort by the departing Obama administration to create a free-trade pact in Asia.

Whenever the shift happened, we are clearly in a [post-free trade era](#) where economic nationalism is in vogue. Out is economic efficiency; in is economic security. Trade policy now is designed to make sure the United States becomes more self-sufficient and to protect leading industries from too much foreign competition.

A recent sign of this sweeping geopolitical change is a book by two authors from usually free-trade institutions, called *How to Win a Trade War: An Optimistic Guide to an Anxious Global Economy*. Coincidentally, the book was released on May 26, shortly after *Foreign Affairs* published an issue headlined "How (Not) to Fight an Economic War," with a cover featuring images of B-2 bombers.

Soumaya Keynes, a columnist for the *Financial Times*, and Chad P. Bown, a senior fellow at the Peterson Institute for International Economics, set out to write a handbook of dos and don'ts when battling for trade supremacy that also appeals to a general audience. Remarkably, they've written about a usually dry subject in genuinely witty prose—although I did eventually get tired of analogies using Keynes' doubtlessly adorable toddlers.

As they write, "[W]ho wants to think about tariffs and other trade barriers when they could be doing almost anything else?" Mercifully, they leave details of the voluminous studies they digested to 44 pages of notes at the back of a slim 222 pages.

The *Foreign Affairs* May/June issue is a weighty affair, with three long articles on fighting trade wars by different authors: [Edward Fishman](#), a senior fellow at the Council on Foreign Relations; [Jake Sullivan](#), former President Joe Biden’s national security advisor; and [Robert Lighthizer](#), the U.S. trade representative during Trump’s first term, who led Trump’s many trade battles.

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Most surprising was how often these writers from very different backgrounds agreed.

According to all of them, China has upended the global trading system, which requires the United States to ditch an ideological attachment to unfettered free trade. As Sullivan writes, “China is selling its excess production in global markets at below-market prices, forcing competing manufacturers out of business while Chinese firms remain dominant.”

Rigorous analysis is crucial for success, they all agree, because trade restrictions often backfire or peter out. If the United States tries to bring an adversary to its knees by blocking access to a technology or market segment, Fishman warns, it better be able to “inflict asymmetric harm” on the other guy, because the restrictions will hurt the United States, too.

That coincides with Keynes and Bown, who warn that fighting a trade war is like “navigating a playground full of bullies.” They offer a comprehensive view of trade war strategy and have the chops to take on the subject. Bown is a tariff geek who became a go-to source for economics reporters by regularly producing data on the impact of U.S.-China trade battles. Keynes has reported on these and other trade fights, first for the *Economist* and now for the *Financial Times*. For four years, the two also co-hosted a podcast, *Trade Talks*. (Full disclosure: I was once a [guest](#) on their show, alongside Lingling Wei, with whom I wrote *Superpower Showdown*.)

As Bown and Keynes note, economists generally hold trade wars in contempt because the battles damage all the economies involved and “no one wins.” And they so thoroughly discuss the downsides of trade fights, from mounting prices to reduced competition, that a reader could conclude the typical economist view is correct.

But sometimes, they say, enough is enough and a trade fight is necessary. Although the pair don’t name the target of a trade war, they clearly are talking about China. This is not because of any ideological view—they rarely mention democracy or individual freedom—but because they fear foreign dominance of important sectors like energy, rare earths, and technology, and come back to the topic a couple of dozen times.

Among the policies they suggest are spending heavily to bolster strategic industries and

creating stockpiles of rare earths and other vital supplies. That could make an adversary realize an aggressive economic move is useless—or help the United States triumph if a trade assault is forthcoming anyway.

In many ways, that means copying China, the world’s industrial policy champ. China became a rare earths superpower not only by investing in mining and but by manipulating mineral prices so competitors would lose money if they sought to enter the market.

The authors admire what they call China’s “deprioritization of profit.” But they don’t wrestle with how a president working in a democratic system rather than a communist autocracy could manage the political blowback from money-losing projects. The failure of Solyndra, a solar power venture backed by \$527 million in government loans, undermined the Obama administration’s efforts to jumpstart the green energy industry after the 2008 global financial crisis.

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Industrial policy can also be wasteful both because governments are lousy at picking winners and because companies are happy to pocket direct subsidies even if they would have made investments without government cash. Keynes and Bown urge the government to stick mainly with tax credits—that way companies don’t get a handout upfront, and must invest in projects before they can recoup any money.

Their general approach to industrial policy echoes Sullivan—which is perhaps no surprise given that Bown was the State Department’s top economist during the last year of the Biden administration. In *Foreign Affairs*, Sullivan says he would use a “coordinated toolkit” including “targeted public investment,” price floors, and government purchases to spur investment in sectors that are strategically important but short on private capital.

Bulking up domestically, however, isn’t usually sufficient to win a trade battle; often tariffs and export controls are necessary. Keynes and Bown aren’t pacifists when it comes to attacking another nation, but they are reluctant to act because they know how easily these instruments can blow up in a government’s face.

Among the downsides: Tariffs and other import restrictions mean higher prices domestically, less competition for protected industries, possible retaliation from other countries, and other unwanted consequences. In 1973, President Richard Nixon restricted exports of soybeans to Japan to try ease domestic prices. In response, Japan worked with Brazil to boost its soybean production and turned Brazil into a soybean powerhouse. China now routinely pressures the United States by cutting off Midwestern soybean imports and turning to Brazil.

Import restrictions can also make domestic industries fat and lazy. That's what happened in the 1980s when the United States limited imports of Japanese cars, creating a price floor that boosted Detroit's profits but didn't lead them to invest wisely in small car technology.

The United States must somehow assure domestic competition to replace international pressure, Keynes and Bown say, but they don't suggest a way to do that. Tougher anti-trust enforcement would help.

Here the Chinese way of keeping domestic companies on their toes isn't worth emulating. Beijing combines a Hobbesian level of competition among domestic companies plus a world-leading level of subsidies so Chinese firms can churn out electric vehicles, batteries, solar equipment, and other high-tech goods at prices that would bankrupt companies in a capitalist economy. Chinese firms are kept alive through state-directed lending, and they export their excess at prices that batter competitors in other countries. Despite U.S. and European complaints, Beijing has shown no interest in changing the system.

Trade restrictions require a clear-headed assessment of national strengths and weaknesses. In 2014, Indonesia banned exports of nickel, an important ingredient in EV batteries, which led to a surge of foreign investment, as Indonesia wanted. But when the country tried the same strategy with bauxite, it flopped. The difference: Indonesia mined about 60 percent of the world's nickel, so battery makers felt they had to invest. Bauxite was plentiful elsewhere.

Using Fishman's terminology, Indonesia's nickel mines were a chokepoint; its bauxite deposits were not. Similarly, China has turned its dominance of the rare earth minerals used in electronics into a chokehold to force the United States to back off on tariffs. U.S. dominance in semiconductor production machinery and software—as well as Washington's pressure on Western companies that make advanced chip-making machinery—is a chokehold the United States uses to stay ahead of China in semiconductors.

The problem for trade warriors is that chokepoints are rare and risky. The most important chokepoint for the United States is the dollar. Cutting off access to the U.S. currency can cripple companies and countries. But weaponizing the dollar gives competitors an enormous incentive to develop alternatives, as China is already doing with the yuan.

The biggest impediment to using chokepoints, however, may be political will. Try to cripple China via chips export restrictions and China may retaliate by targeting rare earths—a weapon that has already proved effective against the Trump administration. But Fishman feels that China is such a threat that the risk is worth it: “[T]he United States has ample leverage to face down China or any other country in an escalatory scenario,” he writes. “What Washington has lacked is the political will to absorb economic pain.” Easy for him to write;

very hard for a U.S. president to sell to the public, as Trump’s backing down in 2025 showed.

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One solution—though not an easy one—is global cooperation. Lighthizer spends much of his essay detailing how he would create a bloc-based “new global trade order.” In his plan, participants would first agree on a goal of balanced trade—not necessary a zero-trade balance with each partner, but an overall balance. That goal has become increasingly important as China’s trade surplus has grown more and more out of whack.

In Lighthizer’s vision, countries that achieve balance between exports and imports would trade with each other in a low-tariff regime. Those that didn’t would face higher tariffs. Surprisingly, given Lighthizer’s long record as a China trade warrior, he would be OK with China joining the good-guy bloc if China moved to balanced trade. But doing so would mean China would stop being China, at least in terms of its economic system. Fat chance of that.

Although Keynes and Bown are optimists compared to Lighthizer, at the end of their book, they sketch a surprisingly similar outline of a new world trade order that borrows from economist John Maynard Keynes. (Soumaya Keynes is too modest to note that Lord Keynes is her great-great uncle. “He died in 1946, so I’m afraid I never met him,” she has said.)

After World War II, Keynes proposed a plan to penalize countries running outlandish surpluses or deficits. The United States, which was running a big trade surplus at the time, killed the idea. Instead, in 1947, trading nations created a Geneva-based institution called the General Agreement on Tariffs and Trade, which did a poor job of policing trade imbalances. GATT was succeeded by the World Trade Organization in 1995, which is housed in the same building and has done an equally poor job.

Keynes and Bown would create what they call the Organization for Watching Liabilities, or OWL. When OWL spots market domination, a “code of economic warfare kicks in,” they write. Under that code, affected nations could use tariffs, minimum prices, subsidies, and stockpiles to bring world trade back in balance “without the others complaining that anyone has broken the rules.”

Of course, the bit about no country complaining is fanciful. But ideas for reimagining a broken trading system are very welcome, especially ones that would head off trade wars that could all too easily transform into the shooting kind.

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**Bob Davis** is a reporter who covered U.S.-China economic relations for decades for the *Wall Street Journal*. He is the co-author of *Superpower Showdown: How the Battle Between Trump and Xi Threatens a New Cold War*.

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