

BLOG — POST

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How to Win a Trade War?



At JDI x PSIA Trade Rounds, the Peterson Institute economist argued that China's grip on essential industrial inputs, more than Washington's tariffs, is the trade contest that matters, and that winning it will take tools the postwar trading rules were written to curb.

Donald Trump seems to start a new trade war almost daily. In August it was Canada, which Chad Bown, fresh from a visit to Ottawa, described as facing an existential threat. But the most important trade war he thinks the West has to fight is with China. It is the subject of *How to Win a Trade War*, which he wrote with the Financial Times columnist Soumaya Keynes, his former co-host on the Trade Talks podcast, after leaving the US State Department, where he was chief economist, in January 2025. Bown, a senior fellow at the Peterson Institute for International Economics, discussed the book at Sciences Po with Nicolas Köhler-Suzuki, adviser for trade and economic security at the Jacques Delors Institute.

I • One-way dependence

Trade economists have long known that China's state-driven model strains the trading rules. What opened Bown's eyes was a 2020 speech by Xi Jinping, since known as the 'dual circulation' speech, in which China's leader set out to end the country's reliance on foreign supply chains while making everyone else rely on China's, so that Beijing could threaten to cut them off. The rules-based system assumes that partners keep trading with each other when times get tough. Xi, in Bown's reading, wants 'one-way dependence'. The figures fit: since 2020 China's imports have been broadly flat while its exports have boomed, even as its share of the US market has shrunk.

In 2025 Beijing showed what that dependence is for. During the spring tariff escalation, which took US duties on Chinese goods to 145 per cent, it restricted exports of rare earths and permanent magnets, used in the small motors that move car seats and windscreen wipers. China makes almost all of them, and some carmakers had to halt production. Months later, after the Dutch government intervened at Nexperia, a Chinese-owned chipmaker based in the Netherlands, Beijing blocked exports of basic chips the company finishes in China, and the car industry came close to stopping again. Europe was hit by the magnet restrictions as hard as the US, Bown noted, although that quarrel was not Europe's. China's dominance of essential inputs, and its readiness to cut off access, is the trade war the book says has to be fought.

II • Remedies the rulebook frowns on

Mapping excessive dependence on countries of concern is the first step. The trouble is that most remedies collide with the postwar trading rules. When China supplies 90 per cent or more of a product, a new entrant elsewhere can expect Chinese state-owned firms to flood the world market and push prices down until Western companies see no return. Persuading them to invest anyway takes subsidies, which WTO rules restrict. Persuading carmakers to buy magnets or chips from anyone other than a cheap Chinese supplier takes discriminatory tariffs, which the system was built to remove. Stockpiles could deter Beijing by making a cut-off futile until new supply arrives, but the West has barely used them for decades.

Building alternative supply outside China was, Bown said, 'the hardest economic problem I've ever been asked to even think about, let alone work on'. A new mine produces lithium or cobalt that costs more than Chinese output. A battery maker will not pay the premium when its rival CATL does not, and a carmaker will not pay more for the battery when it competes with BYD. Policy has to reach every stage of the chain, on the demand side as well as the supply side. The book looks for lessons in economic history and in China's own use of these tools, with one aim, Bown stressed: to adapt Western policy 'so that we don't have to become China'.

III • Who depends on whom

Köhler-Suzuki placed the argument in a longer frame. In *National Power and the Structure of Foreign Trade* (1945), Albert Hirschman showed how a large market can become an instrument of power, and access to the US market as buyer of last resort has long underpinned American statecraft. Dual circulation inverts that logic by drawing power from supply. But how deep does the dependence run? China supplies 95 per cent of Europe's umbrellas, which could probably be replaced quickly in a crisis, and, examined product by product, the list of hard-to-replace dependencies may be short. Is China not itself dependent on the rest of the world?

Collectively, yes, Bown said; the difficulty is getting the rest of the world to act together. With the US market largely closed to it, China's consumer of last resort is now Europe, or so Brussels assumes. The EU is betting that the threat of losing access will change Beijing's behaviour. Bown doubts it will work. Trump made the same bet in 2018-19 and again with the Liberation Day tariffs of April 2025, and on China 'he was exactly wrong': Beijing had built strengths on which America depended, and it found other markets for its exports.

IV • With friends like these

Köhler-Suzuki then asked whether a joint Western front is still possible. Europe, he noted, accepted the Turnberry deal with Washington in 2025 under duress: Sabine Weyand, then the European Commission's director-general for trade, said publicly that the EU had negotiated with a gun to its head, because the US could otherwise have withdrawn intelligence and weapons support. Was the transatlantic alliance not fundamentally broken?

'I think it is,' Bown replied. In Trump's first term Washington's anger fell mainly on China; this time it has fallen on allies too. Any partner approached in 2029 by a new administration apologising for its predecessor should ask what will stop it happening a third time. Restoring trust will require Congress to rein in executive authority so that US commitments bind future administrations. It will also require supply chains designed for mutual dependence. Alternatives to China have to be built from scratch anyway; allies could arrange them so that each holds something the other could withhold. Early in the pandemic, he recalled, US export restrictions on N95 respirators cut off Canada, until the White House was reminded that the American plants making them depended on pulp from British Columbia.

A former French trade official asked whether Washington would accept a sectoral transatlantic customs union for clean-tech goods, with common anti-dumping and anti-subsidy duties at the border. 'I love the idea,' Bown said, though not under the current administration. Taking on China, he argued, will require the US to give up some sovereignty and accommodate its partners' policies as well as asking them to match its own. 'That's not ever been a strength of the United States.'

V • Is China winning?

A participating trade official wondered whether the threat was overstated: a Chinese ban on solar panels would delay the green transition, whereas Russia's gas cut-off stopped factories and left homes cold. Bown thinks China is winning, and would be winning by more if it dealt with its excess capacity and zombie firms. Bilateral pressure will not move a country of China's size, as Washington found over 15 years of trying; it takes a collective effort.

Asked about kill switches, Bown pointed to an asymmetry. Washington's 145 per cent tariffs in 2025 were in effect a kill switch on Chinese exports, and they made little difference: an exporter can find other buyers or store goods for a while. A manufacturer cut off from essential inputs has to stop production. The West's strongest chokepoints, such as ASML's most advanced lithography machines, are already closed to China, and in aircraft the US and Europe would each be tempted to backfill if the other restricted sales.

Elvire Fabry, who directs JDI's trade and economic security programme, asked where like-minded partners should start. Bown set two priorities. The first is to separate the inputs an economy cannot do without, and could not quickly replace, from those it can, such as umbrellas and Christmas decorations, and to build alternative supply for the former. The second is to keep the industrial base alive in the meantime, because it is being squeezed from both ends: Germany's car industry could die from a flood of Chinese imports or suffocate when cut off from the inputs it needs. Europe has to slow imports while it builds alternatives, ideally with WTO-consistent tools that do not provoke Chinese export restrictions. The 145 per cent approach failed on both counts.

Asked whether fiscally stretched governments can afford all this, Bown said the costs cannot be avoided, so the fight has to be waged smartly. He called Washington's current course 'the stupidest possible approach to fighting a trade war'. Tariffs in wars that need not be fought raise prices for consumers, who will then balk at paying for the one that must be, and they alienate partners who could share the bill. 'We don't need 17 critical mineral supply chains outside of China. It would be nice if we had two.' One ally could take graphite, another cobalt. Otherwise, he warned, when Europe tries to implement ideas such as those JDI put forward that week, Beijing will ask whether it wants permanent magnets next year or would rather see Germany's car industry shut down.

VI • Negotiating from behind

Could relations with China move beyond zero-sum? 'Absolutely,' Bown said, and he credited Europe with thinking more constructively than Washington about the long-term relationship. An economy of China's size should leave room for arrangements that benefit both sides. But Beijing has shown no interest in new rules; in his conversations with Chinese officials over the past decade, they have seemed content with things as they are. Nor can the West bargain from strength while it relies on China for the inputs its economies need to run. Until it has built alternatives, as Bown put it, 'we're going to be negotiating from behind'.