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Trump Hired Robert Lighthizer to Win a Trade War. He Lost.

The Trump administration's obsession with trade threats, tariffs, and bullying both allies and rivals into submission was based on an ambitious theory. It turned out to be a fallacy.

By Edward Alden

Robert Lighthizer, the U.S. trade representative, agreed to serve in President Donald Trump's cabinet in order to test his theory: that if the United States freed itself from the shackles of international trade rules, it could use the power of its large market to force other countries to bend to its will. Trump, with his stated love for tariffs and his conviction that the United States had been losing on trade for decades, seemed the perfect leader under whom he could test that proposition.

Now, with Trump having announced that new 10 percent tariffs will be imposed Sept. 1 on the remaining $300 billion in Chinese exports to the United States, that theory has been shredded. The administration has fired almost every salvo it has to force the Chinese into submission, and the two countries are further away from a trade deal than ever before.

Trump gave Lighthizer everything he should have needed to compel trading partners to change—the freedom to threaten and impose tariffs, the neutering of World Trade Organization (WTO) restraints, and a boss who wouldn't settle for weak deals to claim victory if the going got too tough. But they have nothing to show for it except for an escalating trade war with the world's second-largest economy.

For those who saw merit in Lighthizer's approach, the concern was always that Trump would fail Lighthizer; instead, Lighthizer has failed Trump. And there is no theory that serves as a guide to what might come next.

The best way to understand the last two and half years of U.S. trade policy is as a protracted campaign aimed at forcing other countries to submit to U.S. demands. Lighthizer preferred bilateral negotiations because smaller countries are easier to bully one at a time than collectively.

The first volley in Lighthizer's campaign came when he dusted off Section 232 of the half-century-old Trade Expansion Act, which permits tariffs on national security grounds, and imposed duties on steel and aluminum. South Korea, dependent on the United States both for trade and security, bowed quickly by agreeing to a quota on steel exports and rewriting its trade agreement to permit greater protection for U.S. cars. Canada and Mexico fought harder, retaliating against U.S. farm exports and forcing a difficult renegotiation of the North American Free Trade Agreement. But both countries, almost wholly dependent on the U.S. market for exports, also accepted a deal largely on U.S. terms—though that agreement has now been stalled by Democratic opposition in the U.S. Congress.

The European Union, bigger and more confident, fought back still more forcefully and has so far given up nothing. It retaliated against the United States by slapping tariffs on politically sensitive goods, including corn, bourbon, and Harley-Davidson motorcycles, and has resisted demands for bilateral negotiations. The United States has more ammunition—tariffs on automobiles that

Trump could trigger under a separate Section 232 investigation and tariffs soon to be authorized by the WTO under a long-running U.S. complaint against European subsidies for Airbus. Europe warned that any new tariffs would be met with massive retaliation.

The real target, however, was China and its $400 billion trade surplus with the United States. Lighthizer's critique of China—that it exploited loopholes in WTO rules to gain unfair trade advantages against the United States and others—was a decade ahead of its time.

When previous administrations and multinational companies were still hoping for China to emerge as a responsible stakeholder in the global trading system, Lighthizer was warning that China was gaming the system to capture industry after industry. His views on Chinese behavior have now become mainstream in both U.S. political parties.

For a time, the theory seemed to be working as planned. The United States hit China with 25 percent tariffs on $50 billion of exports in July and August 2018 and then, with no meaningful response from China, added 10 percent tariffs on another $200 billion in September 2018. At the end of 2018, with Trump threatening to boost that tariff to 25 percent, China finally succumbed and sat down to negotiate seriously with Lighthizer and other U.S. officials.

After several rounds of increasingly serious negotiations this year on long-standing issues such as Beijing's demands that U.S. companies share proprietary technologies as the price of investing in China, intellectual property theft, and Chinese subsidies to industries, the talks fell apart in May. The U.S. explanation was that China had agreed to make significant changes that would be enshrined in law and then pulled back; the Chinese version was that negotiations were still in flux and Beijing had never made clear commitments. Trump responded to the breakdown by ratcheting the tariffs up to 25 percent and then threatened new tariffs on the remainder of Chinese exports.

While Trump and Chinese President Xi Jinping called a brief truce at the G-20 summit in June in Osaka, Japan, the May breakdown effectively marked the end of negotiations. Chinese leaders became convinced that the Trump administration would never do a deal on terms they could accept and turned to other ways to shore up the economy through credit, new investments, and lowering tariffs for other trading partners. China has resigned itself to living with the U.S. tariffs for the time being and believes it can weather any economic harm.

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Trump's announcement this week that the United States will impose 10 percent tariffs on the remainder of Chinese imports came after a brief and unsuccessful effort to restart serious negotiations in Shanghai. The move may look like part of the same campaign to use still more tariffs to force China to make concessions it has so far refused, especially since the two sides are scheduled to meet again in September. But no one in the administration can be under any illusion that China will buckle to the additional pressure. To do a deal now would be humiliating for Beijing. News reports suggest that both Lighthizer and Treasury Secretary Steven Mnuchin, who have led the talks, opposed the new round of tariffs. Trump overruled them.

That makes the next steps in the trade war especially hard to predict. Will China hit back to save face or escalate in other ways such as military threats against Taiwan or other neighbors? Will Trump quickly raise the 10 percent tariff to 25 percent, which would truly hurt U.S. consumers of smartphones and other Chinese-made consumer products? Will the Trump administration turn its attention now to Europe—or perhaps to India or Japan—all of which are resisting U.S. trade demands?

Politics could take over as well. With the leading Democratic presidential candidates, other than former Vice President Joe Biden, running as tough on trade and tough on China, Trump may simply mete out a random dose of tariffs over the next year to avoid being outflanked by his rivals.

The entire theory that had anchored the Trump trade policy turns out to have been wrong; it may live on, zombielike, but the already minimal returns will diminish more. The United States will hurt itself and others with tariffs without even the prospect of meaningful trade deals.

This means that the trade wars—which U.S. Federal Reserve Chairman Jerome Powell this week called “something that we haven’t faced before”—have become even more unpredictable. For investors, and for companies making long-range investment decisions, the uncertainty has now multiplied. Tariffs have gone from being a means to force changes in trading practices to an end in themselves. That was never Lighthizer’s plan. But the next steps now are entirely in the hands of Trump.