Like a Hawk

A dangerous new plan from Trump's trade mastermind.

By Bob Davis

U.S. Trade Representative Robert Lighthizer speaks at a Senate Finance Committee hearing in Washington on June 17, 2020.

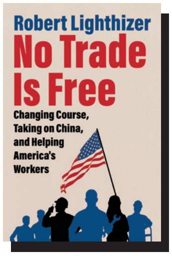
ANDREW HARNIK/GETTY IMAGES

In the clubby world of Washington trade lawyers, Robert Lighthizer was always an outsider. He became wealthy representing the steel industry in its decades-long battles to block imports, while Republican and Democratic administrations alike pursued free trade deals. "It was like he was in the Galapagos," away from the action in Washington, where trade pacts were being hammered out, one trade lawyer told me.

But in Donald Trump, Lighthizer found a president who shared his protectionist ideas. Together, they shifted U.S. economic policy away from engagement with China toward confrontation. While the shift had been gathering speed for some years before 2016, none of Trump's predecessors had been willing to bludgeon China with massive tariffs to pursue U.S. goals. Reversing U.S. policy toward China is probably the Trump administration's most important economic legacy.

In *No Trade Is Free,* Lighthizer recounts how he fought China as Trump's U.S. trade representative—essentially the top general in a three-year trade war—and recommends policies to finish the job. No challenge is more important, he argues. "China remains the largest geopolitical threat the United States has faced, perhaps since the American Revolution," he writes, elevating China over Nazi Germany or Civil War secessionists.

Lighthizer has produced an important book, though a wildly uneven one.



No Trade Is Free: Changing Course, Taking on China, and Helping America's Workers

ROBERT LIGHTHIZER, BROADSIDE BOOKS, 384 PP., $32, JUNE 2023

It is sure to be a handbook for Republican presidential candidates searching for a China policy and economic nationalists across the board. During the Trump administration, Lighthizer was always in the running for White House chief of staff, and in our age-is-just-a-number political era, the 75-year-old Lighthizer is a likely candidate for that office or another senior post should Trump regain the White House.

No Trade Is Free is a kludge of two different books. The main part is an informative and provocative account of how he fought the China trade war and other trade battles. While he oversells his and Trump's accomplishments and doesn't acknowledge any of the failures, his efforts have important lessons for dealing with Beijing.

But he tacks on a shorter book in which he proposes truly radical policy recommendations to delink the United States and China. He would hike tariffs to towering levels, end the benefits China has received from the United States for joining the World Trade Organization (WTO), cut off investment between the two nations, block Chinese social media companies, halt cooperation on technology—and keep the measures in place until China's trade surplus, now nearly $400 billion, disappears. In other words, for decades, if not forever.

He calls his proposals "strategic decoupling," but there is nothing strategic about it. He would fully sever ties between the world's two most important economies—with likely disastrous results.

LIGHTHIZER AND I HAVE A LONG AND COMPLICATED RELATIONSHIP. As a *Wall Street Journal* reporter, I began covering him in 1996 when he was the treasurer and unofficial idea man for Sen. Bob Dole's ill-fated presidential run.

Back then, his swagger and protectionism were a novelty. He raced a red Porsche 911 Targa at a track in West Virginia. For his 40th birthday, he installed a big oil portrait of himself in the parlor of his suburban Maryland home. "I think everyone should have one," he joked with guests. "I don't mean a painting of yourself. I mean a painting of me." When he moved to Florida, he kept the painting but moved it to a less prominent location.

When he was Trump's trade representative, I covered him intensively, sometimes flying with him to Beijing in the hope of getting a hint of his next move in the trade war. That rarely worked; he would sleep nearly the entire 13-hour flight. I co-wrote a book about the trade war where he played a major role.

Sometimes he took sharp exception to what I wrote and once even denounced me and my co-author, Lingling Wei, by name in a press release for a story he thought was false. He stopped answering emails after we wrote a piece arguing the United States didn't win the trade war. But in my exit interview with him two days after the storming of the U.S. Capitol, he said this: "I don't always agree with you, as you know, but I—you know, you're a hardcore, old-school journalist in a—in a—I mean, you're like a goddamned, you know, dinosaur." (I took that as a compliment.)

It wasn't obvious that Lighthizer, a big, showy personality, would thrive under Trump. But his work with Dole taught him how to get along with a boss who has no interest in sharing the limelight, a crucial skill for working with Trump. In an administration filled with leakers and bumblers, Lighthizer was close-mouthed and competent. He didn't call attention to himself like advisor Steve Bannon or fight Trump's decisions like Defense Secretary James Mattis. Lighthizer was one of the few Trump aides whose reputation was enhanced through his service.

Lighthizer used Air Force One flights to Florida, where his home was just a few miles from Mar-a-Lago, to get to know his boss better. He made friends with Trump's daughter Ivanka and son-in-law, Jared Kushner, and counted on the latter to help sew up some trade deals. In his book, Lighthizer is unfailingly complimentary of Trump and doesn't say a word about Trump's efforts to reverse the 2020 election or the storming of the Capitol on Jan. 6, 2021—the events that caused another prominent China hawk in the administration, Deputy National Security Advisor Matt Pottinger, to finally resign.

The book recalls when Trump upbraided Lighthizer during a televised meeting with Chinese negotiators because Lighthizer was pushing for what's called a "memorandum of understanding" with Beijing. In the trade world, an MOU is a deal that doesn't require congressional approval, but in Trump's real estate world, it means a preliminary agreement.

Lighthizer's "strategic decoupling" would fully sever ties between the world's two most important economies—with likely disastrous results.

After making a brief effort to try to explain the difference to Trump, Lighthizer recounts how he promised never to use the term MOU again. But he doesn't say how his top aides later lobbied reporters to downplay any disagreement with Trump.

WHILE HE WAS TRADE REPRESENTATIVE, Lighthizer used unconventional means—tariffs on a scale not used since the 1930s—to produce a conventional outcome, a trade deal incorporating numerous U.S. compromises. Rather than decoupling from China, strategically or otherwise, his Phase One accord envisioned increased trade between the two nations and had detailed procedures to work out disputes. Ironically, Lighthizer provided a road map for continued engagement, not decoupling.

The Biden administration hasn't had the political will yet to try to build on his work. And irony upon irony, Lighthizer praises the Biden team for continuing the tariffs but not the deal. "Fortunately, the Biden administration so far hasn't taken the bait" of cutting tariffs in the hope of getting China to import more U.S. goods, he writes.

Lighthizer's own opposition to China is rooted in his disdain for free trade and the rapid pace of globalization since the 1990s. As a young official in the Reagan administration, he helped negotiate deals to limit imports of Japanese cars and computer chips. After Japan's economy cratered, China became the next target for economic nationalists like Lighthizer.

He criticizes what he calls China's mercantilist policies, although his definition of mercantilism describes his own policy preferences. "Mercantilism is a school of nationalistic political economy that emphasizes the role of government intervention, trade barriers, and export promotion in building a wealthy, powerful state," he writes. Exactly the direction he wants the United States to head.

Yet he doesn't explain why he thinks the radical decoupling he proposes is necessary only three years after he left office. He repeats the usual complaints about Chinese economic and military predation, threats to Taiwan, and violation of human rights—all of which were clear when he was in government and none of which got in the way of him doing business with Beijing. In his book, he recalls how he ignored Beijing's takeover of Hong Kong and demolition of democratic rights there because that would get in the way of finishing his trade deal. "I quickly responded [to Chinese negotiator Liu He] that the Hong Kong issue was not related to our discussions and that we needed to stay in our own lane," he writes.

Lighthizer doesn't mention his inaction on Taiwan. He discontinued low-level talks on trade and investment common in previous administrations and opposed deeper economic integration. Trump national security officials regarded Lighthizer as the biggest impediment in their push for a free trade pact with Taiwan, which they believed would give Taiwan a political boost.

To Lighthizer, Taiwan was just another Asian export-hungry nation subsidizing its goods and stealing U.S. jobs—and one that could distract from a trade deal with Beijing. He called himself a "business guy" when I would ask about his policy toward the self-governing island. Foreign policy was for others.

AS A TRADE NEGOTIATOR, LIGHTHIZER COULD BE FIERCE. In Trump's first meetings with Chinese President Xi Jinping in Beijing, Lighthizer bluntly lectured Xi about Chinese cybertheft, pressure on U.S. companies, and the impact of big trade deficits on American workers. The Chinese side was stunned. "It was not exactly a setting known for open,

U.S. President Ronald Reagan shakes hands with Lighthizer in the Oval Office on April 25, 1983. At center is then-Commerce Secretary Malcolm Baldrige Jr.

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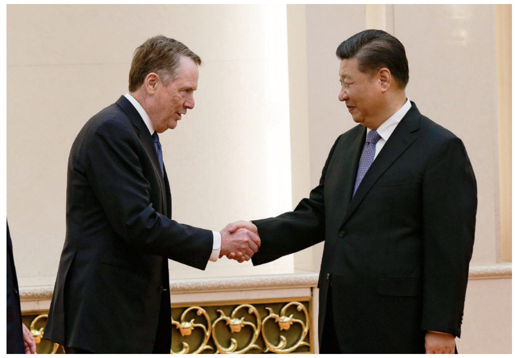

Left: Flanked by Lighthizer and Vice President Mike Pence, U.S. President Donald Trump speaks during a signing ceremony for the United States–Mexico–Canada Agreement at the White House on Jan. 29, 2020. Right: Lighthizer shakes hands with Chinese President Xi Jinping in Beijing on Feb. 15, 2019.

ANDY WONG/AFP VIA GETTY IMAGES; DREW ANGERER/GETTY IMAGES

critical speech directed at the highest authorities" of the Chinese Communist Party, he writes.

At a dinner afterward, the Chinese seated two of the seven members of the ruling Politburo Standing Committee on either side of Lighthizer to try to figure out how much influence he had on China policy.

In confronting China, Lighthizer calculated that Washington alone still had enough economic heft to force Beijing to change. For years, the United States had largely worked out trade disagreements through the WTO, which takes years to reach decisions and whose rules don't cover many U.S. complaints about China, such as unfair subsidization of domestic companies or the actions of state-owned companies.

Instead, Lighthizer dusted off Section 301 of U.S. trade law, which can authorize the president to impose tariffs in response to unfair trade practices without turning to the WTO. Lighthizer found plenty of Chinese actions that met that definition, including theft of intellectual property, pressure on U.S. companies to turn over technology, and regulations that disadvantaged U.S. agricultural and other exporters. By the end of the three-year trade war, Trump imposed tariffs as high as 25 percent on three-fourths of everything China sold to the United States.

Lighthizer recounts in detail round after round of negotiations that produced a deal where, on paper, the United States came out ahead. China agreed to strengthen cooperation on IP protection, end discriminatory regulations, vastly increase purchases of U.S. goods, and work out disagreements. The United States also kept in place nearly all its tariffs and said it would only roll them back when China carried out its pledges. He pats himself on the back for a "historic success" and says China has largely met its obligations, aside from purchases, though he now opposes any tariff rollback. But he doesn't discuss any of the deal's shortcomings or failures or the times Trump backed off from tough actions when the stock market started to tank because of the trade war.

A fuller account of the trade war makes it clear that the United States wasn't the winner—nor was China. Both the U.S. and Chinese economies suffered, though China's more than America's because it is more dependent on trade. China fell 40 percent short of its commitments to buy U.S. goods. The Office of the U.S. Trade Representative continues to complain about Chinese coercion, technology theft, and other misdeeds.

Trade is one of the many battles the two sides continue to fight in their deepening conflict. The Biden administration has picked up on Trump complaints about the shortfall in purchases and the continued pressure by China on U.S. companies to hand over technology. Chinese negotiators still press the United States to lift tariffs as a sign of goodwill.

As for helping factory workers, tariffs did the opposite. Prior to the pandemic-induced recession of 2020, the United States was adding factory jobs, but 75 percent of the gain occurred before the first tariffs took effect against China in July 2018. Then growth in manufacturing jobs began to decline and stalled out before the pandemic reached U.S. shores.

The clearest winner from the trade war is Vietnam. According to calculations by Kearney, a management consulting firm, China shipped $50 billion less in manufactured goods to the United States in 2021 than it did in 2018, as tariffs on China increased. During that same time, Vietnam—free from those U.S. tariffs—increased its factory goods shipments to the United States by $50 billion. The additional export revenue helped Vietnam build up its industrial parks, ports, and roads and attract higher-paying industries such as electronics. In yet another trade war irony, many of those new Vietnamese export companies are Chinese-owned.

In one of the book's biggest omissions, Lighthizer fails to detail the concessions Chinese negotiators agreed to make concerning industrial subsidies and the behavior of state-owned firms but then dropped in May 2019 when they were overruled by the Politburo Standing Committee. These areas were top U.S. priorities. Disclosing the text would have been enormously useful in understanding China's economic red lines and helping future U.S. negotiators to push for change.

There is precedence for publishing preliminary text. In 1999, U.S. President Bill Clinton's trade representative, Charlene Barshefsky, published China's offer to sharply remake its economic policy to get Clinton's backing to join the WTO, even though Clinton at that point hadn't approved the deal. Barshefsky wanted to make sure China didn't back off from its pledges, infuriating the Chinese. Her tactic largely worked.

Lighthizer doesn't explain this omission. In earlier conversations, he said he wanted to act in good faith with Liu, China's top negotiator, whom he had come to admire. In the trade world, gentlemen don't reveal texts that aren't included in a final deal.

EVEN IF IT WASN'T A U.S. VICTORY, there are important lessons to learn from the trade war. Tariffs, even on the scale Lighthizer used them, won't tank the global economy, as S&P Global and many on Wall Street had worried. Eliminating the China tariffs now could reduce inflation by roughly 1 percentage point, according to the Peterson Institute for International Economics, a free trade think tank that views tariffs the same way the Catholic Church views Satan. With inflation running around 4 percent or so, that isn't an insignificant number, but it's not economy-shaking, either.

Importers paid the tariffs and only sometimes passed them on to consumers, keeping the inflationary bite lower than expected. Trade with China has now reached pre-pandemic highs, although imports of tariffed goods lag behind, as customers shifted to producers outside China.

Lighthizer, who considers himself a conservative Republican, also showed that tariffs and trade policy could be used to further some progressive goals.

During talks with Mexico and Canada, he negotiated a provision in the United States-Mexico-Canada Agreement requiring automakers to pay hourly wages of $16 for much of the work done on cars shipped to the United States—besting by $1 an hour Bernie Sanders's dream for a new minimum wage. Another provision enables the U.S. trade representative to sue Mexico for labor violations at Mexican factories.

He also demonstrated that tariffs can sometimes preserve jobs. The 25 percent tariff he placed on Chinese auto imports helped blunt an automobile import surge from China that had swamped Europe. He now supports using tariffs to help fight climate change by raising the cost of imports made by carbon-intensive methods.

But Lighthizer takes his infatuation with tariffs too far. He proposes using them to eliminate the enormous U.S. trade deficit with China altogether. To do that would require a level

Tariffs of 100 percent or higher could devastate broad swaths of the U.S. economy—from importers of toys and clothing to makers of machinery and electronics that use imported parts from China.

of protectionism much greater than anything he advocated while in office.

The trade war showed that 25 percent tariffs reduced the trade deficit with China somewhat but the overall trade deficit continued to rise. While he doesn't name a number in the book, the tariffs he envisions would need to be much higher than 25 percent—probably more like 100 percent or higher—and they would have to be imposed widely to stop countries like Vietnam coming in to pick up the lost trade.

Levies of that scale could devastate broad swaths of the U.S. economy—from importers of toys and clothing to makers of machinery and electronics that use imported parts from China. While Lighthizer argues that the income from the tariffs would be a boon to the U.S. Treasury, the trade war shows that wouldn't be the case. The additional income the United States collected on 25 percent tariffs went to subsidize farmers whose sales cratered after China responded with its own levies. Tariffs high enough to fully block imports do just that—meaning there is no tariff revenue to collect.

And what if the Chinese retaliate with their own tariffs in the new trade war he proposes? Lighthizer is sanguine about the loss of U.S. exports to China. "To the extent that they [retaliate]," he writes, "that would also contribute to the strategic decoupling."

Lighthizer doesn't weigh the likelihood that China would retaliate in sectors where the United States needs imports to meet environmental and other goals. China gave a hint of the sort of pressure it could apply recently when it said it would restrict exports of gallium and germanium used to make advanced microelectronics. China dominates the markets for solar and wind power equipment, automobile electric batteries, and minerals used in electronics, among other industries.

THROUGHOUT HIS BOOK, Lighthizer argues that eliminating the trade deficit is crucial to help workers and restore American power, but he provides little evidence to make his case. Right now, the U.S. unemployment rate, for instance, has fallen to nearly 50-year lows despite a mushrooming trade deficit.

Chinese imports certainly have hurt big swaths of the Southeast and Upper Midwest, where factory towns lost out to Chinese imports. Import competition is also one reason median incomes have been stuck for years. But other factors are important there, too, including automation and the falling level of unionization.

There have been enormous gains from globalization, too, which Lighthizer largely ignores. Imports have lowered costs for American businesses and consumers across the board, increased the range of goods available to consumers, and put pressure on U.S. industry to innovate. Foreign investors employ millions of Americans and have brought new technology to the United States. Lighthizer isn't alone in downplaying the traditional gains from trade. That has been one of the impacts of the current swing to economic nationalism.

Lighthizer sees the trade deficit as enabling China's rise. "It is no exaggeration to say that the biggest navy and biggest army in the world has been built with U.S. dollars and it is not in America," he writes.

It's also no exaggeration to say the roughly $1 trillion Beijing invested in U.S. government securities is essentially held hostage in the United States, giving it significant political leverage. As Russia's invasion of Ukraine has shown, in a pinch the United States can freeze assets held by foreigners. Despite China's efforts to make the yuan a global currency, world trade is still dominated by the dollar.

It's true that expanded trade means the United States sends hundreds of billions of dollars to China, which it has used to grow and prosper. That's what was intended. That trade has helped transform China and lifted tens of millions of Chinese out of poverty.

Lighthizer doesn't consider what might have happened if the United States had kept China out of the global trading system. It's not hard to imagine a still-poverty-wracked China, embittered at the United States, looking to foment revolution and arming U.S. adversaries with weapons, including nuclear ones, as it did for countries such as Vietnam and North Korea before the U.S.-China rapprochement in the 1970s.

Lighthizer's view that the United States depends too heavily on China is now widely shared. The trade war followed by the pandemic showed that the United States relies too much on global supply chains for medicine, technology, and other critical goods. U.S. companies also were late in realizing the need to diversify their manufacturing away from China. A correction is underway. But how to manage that correction? The Lighthizer of *No Trade Is Free* would undo the remaining ties between the world's two largest economies. The Lighthizer who negotiated a trade deal with China held out hope that the two countries could continue to work together and sort out their differences. ■

BOB DAVIS is a writer on U.S.-China economic relations and the co-author of *Superpower Showdown: How the Battle Between Trump and Xi Threatens a New Cold War*, with Lingling Wei.