





# HOW TO WIN A TRADE WAR

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An Optimistic Guide to an  
Anxious Global Economy

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**TO LEILA, CASPAR, AND PADDY**

—SK

**TO REBECCA**

—CPB



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## INTRODUCTION

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# THE TRADE WARMONGER

A trade warmonger and a couple of reluctant guides walk into a bar

“It’s more beautiful than love. It’s more beautiful than anything. It’s the most beautiful word,” said former US President Donald Trump while campaigning for reelection in 2024. He was, of course, describing the word *tariff*. This was an extreme take on a word that roughly half of Americans couldn’t accurately define. For many people around the world, *tariff* was a technical term that they didn’t really understand. And thanks to a boring, stable rules-based trading system, for decades they didn’t really have to.

Since you have picked up this book, we are guessing that you have noticed that we’re not in that world anymore. Trade wars are eating up attention, bludgeoning people with uncertainty, higher prices, and lost sales. They are affecting executive boardrooms, investor earnings calls, and inventory decisions. And now that the old norms have been shattered, they are raising many, many questions.

So you’re not alone if you have been bewildered at any point—most people didn’t get much warning that they were about to be enlisted in economic warfare. It’s understandable if you’ve wondered if there’s a

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right response to a tariff attack, who really pays for tariffs, or even just why we can't all get along. It's fine to ask who exactly started today's trade fights and whether all those countries claiming to be innocent bystanders deserve some of the blame. And to ask whether, as the pundits scream at each other, it's possible to navigate this era of economic conflict without losing your head.

We should probably introduce ourselves. Chad is a tall, optimistic American economist. After becoming a tenured economics professor he left academia for the world of policy, working at international organizations including the World Bank and the World Trade Organization, then settling at the Peterson Institute for International Economics in Washington, DC. Soumaya is a short, cynical Brit living an ocean away in London, who has occasional identity crises over whether she's an economist first and a journalist second or the reverse. She met Chad soon after she started covering trade for *The Economist* in 2016 and with him founded the podcast *Trade Talks*.

Both of us have been on something of a journey since then. Soumaya moved from London to Washington, DC, and back again, joining the *Financial Times* in 2023 to write a column about economics and host her own podcast, *The Economics Show with Soumaya Keynes*. (Because of course the world needs more podcasts.) Chad continued *Trade Talks* on his own, temporarily pausing to join the Biden administration as the State Department's chief economist. Then in 2025, we rekindled our professional partnership to write this book.

Our friends and family were a little surprised when we told them about the project. Soumaya was still technically on maternity leave, while Chad had been clinging to the hope of better work-life balance after his hectic stint in government. But when we shared the title *How to Win a Trade War*, the timing made sense to them. Many were baffled by the trade tensions dominating the headlines and wanted what we were promising: a book to help them understand what on earth was going on.

Other positive reactions came from the government officials we interviewed as part of our research. More than one asked whether we could share the winning strategy once we had found it. (We noted that copies

of the book were available to preorder.) Just like the businesses, workers, and shoppers also caught up in economic conflict, they were struggling to navigate the new terrain. Many had taken trade peace for granted, then spent years calling for it to come back. Increasingly, they recognized that hopes for a return to the old way of operating were simply naive.

We also met some skepticism from those pointing out that we had set ourselves an impossible task. We heard the phrase “No one wins a trade war” repeatedly and deserve an Oscar for pretending with polite chuckles that each time was the first. More seriously, a corporate executive warned us that with so many choke points in the international trading system, we could all easily choke one another to death. And one expert invoked a parallel with the film *WarGames* from 1983, in which a computer simulated every possible nuclear battle. Since they all ended in mutual destruction, the computer intoned, “The only winning move is not to play.”

We didn't think that doing nothing was an option—though given that President Trump was setting fire to the global economic order as we were writing, we did worry about fanning the flames. We reassured ourselves that ours was a reluctant guide to trade wars as well as a necessary one, given that the fighting was here to stay. We also believed that although winning could mean racing ahead of a geopolitical rival technologically, economically, and militarily, it could also mean minimizing one's own wounds. Our goals are constructive ones: to arm you with evidence of what does and doesn't work on the battlefield, and to help you see what conflict lies ahead.

Before we begin properly, we want to share a little elegy for the old rules-based trading system. We used to be among its biggest fans. The fact that most people had no idea what it was seemed awesome. After all, who wants to think about tariffs and other trade barriers when they could be doing almost anything else? When rules fade into the background, it's often a sign that they are working reasonably well. We're not all like Soumaya, who actively enjoys throwing around trade acronyms, including SPS (sanitary and phytosanitary standards), MFN (most favored nation), and WTO (World Trade Organization). And that is for the best.

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Over time it became increasingly obvious that the system wasn't actually working very well. Trade conflicts lurched into the headlines, from Brexit to President Trump's tariffs. The pandemic led to another round of trade barriers as panicked governments stopped exports of personal protective equipment, medical devices, and ultimately vaccines. The US and China exchanged blows by restricting exports of chipmaking tools and technology, as well as rare earths.

Watching the drama unfold, we identified a key problem: insularity. Most obviously, the Trump administration seemed at times to forget what allies were. But others were also too inward looking. China's economic model meant that it made too much and bought too little from the rest of the world. Rather than responding to its trading partners' complaints, the Chinese government continued to pursue a position for its country so central in the global economy that others wouldn't be able to do without it.

The Europeans were so intent on making money on trade with Russia and China that they made themselves vulnerable to economic attack. Brexiteers assumed (mistakenly) that leaving the EU would be easy because of its keenness to avoid trade conflict. India was infamous for taking trade talks hostage, shutting down productive conversations elsewhere until its demands were met. More broadly, Soumaya remembers attending some global trade talks in which a minister scolded the other participants for behaving like children and thinking that they had a point.

Over the years, we grieved the erosion of that rules-based system. We mourned the loss of norms that constrained governments' worst behavior and offered the smallest players some protection from the biggest beasts messing them around. We harshly criticized the politicians leading the destruction. But eventually we also realized that there was no going back. The problems were too deep, and too much had happened. Trade wars were the new normal.

As we take this trip, we're going to do something a little unusual and ask you to start from a very specific place. We want you to imagine yourself as a would-be trade warrior, preparing for the battles ahead. You have heard about tariffs (taxes on imports). Perhaps you are aware

of export controls, which are limits on what companies can sell overseas. You harbor vague trade-related grievances toward other players behaving unfairly and a sense that faraway international organizations such as the World Trade Organization don't work for you. Most of all, you're itching to join the fray.

Don't worry if this level of economic aggression doesn't come naturally to you. If you're someone worried about whether trade wars will make your next smartphone or your favorite shoes more expensive, or if you're merely a business owner trying to understand why governments are mucking up your supply chains, this book is for you. If you're trying to understand what all the pundits are screaming about or even worrying about the talk of "war," you're in the right spot. And if you're a fellow trade nerd, that's great. After all, this is a guide for grown-ups.

For now, play along as we put you into the center of the action, and imagine yourself as a player desperate to wage a trade war. By placing yourself at the heart of the battle, you should find it easier to understand the fight.

Having settled into your trade warrior persona, you have come to us for a briefing before you dive into battle. As two trade nerds, one tall and one short, we apologize that there wasn't anyone more glamorous available. But we have a lot to offer. We have read a *lot* of economics studies, more than anyone should ever have to. For the purpose of writing this book, we have spoken to well over a hundred government officials, corporate executives, and other experts, all of whom shared their experience and advice. Some spoke on the condition of anonymity, since trade-war strategy is sensitive. Where possible, we'll say where our information is from.

Our hope is to offer a reasonably balanced and calm guide to trade wars past, present, and future. Don't expect an ideological defense of free trade—it's not our style. Do expect an effort to present the evidence clearly, with a discussion of its limits. There are many more gaps than we would like, and while we don't want to throw up our hands and say that nothing is knowable, we also think it's healthy to be aware of what the data can and can't tell us.

By the end of this book you'll understand the fuss about tariffs, why trade wars happen, and all that can go wrong. You'll hear stories from

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around the world, presented with a mixture of Chad's optimism and Soumaya's cynicism. We encourage you to keep an open mind. In a trade war, only a fool rules anything out before they have even started to fight. And fundamentally, winning means learning lessons from the other teams.

Here's the plan. In order to wage war, you need to know the battlefield. So we start with what's at stake—prosperity and peace—and who else is going to be part of the fight, including governments, corporations, and, well, citizens. We'll even set you up with a battleship-like scenario, painting governments as ships sparring on choppy seas. (We're going to ask you to use your imagination rather a lot in this book.) Then we'll apportion the blame for the old rule book breaking down (widely), before taking inspiration from Reddit preppers to share the secrets of a good defense. Finally, we'll outline the attack, including how import barriers are like party drugs, with an initial rush and then a comedown, while export controls are like trying to keep an unruly teenager indoors. (It's doable, though the true cost is to your time rather than future therapy bills.)

We'll finish by sharing how each trade warrior could emerge feeling like they have won. By following the lessons we are about to share, everyone will have a chance.

See? We really are trying not to be destructive. And if you're ready to learn how to win a trade war, we can begin.

## ONE

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# THE STAKES: PROSPERITY

Trade wars don't come cheap

How many times have you checked your phone today? If you're anything like us, probably too many. As we write this, Soumaya's count is 130. (And that was on a day her phone was mostly in a different room so she could concentrate.) Chad's is 54. (Show-off.) And how many times have you thought about how extraordinary it is that you have that smartphone at all? Or about how many people, living in how many countries, were involved in making it? Probably not enough.

Take the world's most popular phone: the iPhone. For a long time, Apple printed on its packaging that its products were designed in California and assembled in China. But that missed quite a few steps in between. The company's supplier list for 2023 contained almost two hundred companies manufacturing in twenty-eight countries. (Grudgingly, we accept that the simplified version had more oomph.)

Those suppliers had suppliers of their own, of course. To make a smartphone chip, you start with raw ingredients, like germanium from China and high-purity sand from the United States' Appalachian Mountains. Those go to factories in Japan to be made into "wafers" and then to Taiwan to be forged into semiconductors—with the help of American software and Dutch equipment. In other words, a true team effort.

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You probably haven't thought much about how that lipstick in your purse got to you either. That's the job of Audrey Ross, a Toronto resident who manages the logistics of cosmetics and accessories, from hair claws and lip glosses to her favorites (the simplest): blender sponges. Her work involves absorbing all the hassle involved in getting customized beauty products to retailers' shelves.

Imagine that the request is for a custom lipstick conceived of in Canada, in which case the plastic and metal components will probably come from China or South Korea, to be shipped to Mexico by boat. (If the retailer is in a rush, shipping by air is an option, though at roughly triple the cost.) Once in place, the ingredients are mixed, poured into molds, cooled, and inserted into their plastic casing. Finally, the lipsticks are trucked to their final destination in America. Beautiful.

Earlier in her career, Ross wondered why more makeup wasn't made closer to North American buyers. It would certainly simplify things. But as she discovered, some ingredients were tricky to source locally. And some manufacturers closer to home struggled to fulfill specific client requests. Asked for, say, a product in purple with a silver logo, first they would offer black and white. (Not the same.) Then they would talk about bringing in engineers, changing molds, and uncertainty about how much it would all cost. In China, the response was "No problem" with a clear price tag. Lovely.

For readers outside Asia, the box of sushi you ate for lunch took a lot of effort to get to you too. Ken Furukawa, the CEO of Tazaki Foods Ltd., may have helped. Based in Enfield in north London, he imports food and beverages from twenty-two countries and sells them both in the UK and abroad to restaurants and retailers. He deals in wasabi and vinegar used to season sushi rice from Japan, seaweed sheets for wrapping from South Korea, and sliced ginger from Thailand.

Furukawa used to source rice for the British market from Italy but switched to buying from Vietnam after drought interrupted supplies. Soumaya demonstrated that there *is* such a thing as a stupid question when she asked him whether rice could come from the UK. He paused, then kindly explained that "it's not suitable." Most salmon comes from Norway or Scotland and prawns from Vietnam. Furukawa sighs that British tastes for protein are "a bit boring." If they weren't, perhaps

there might be even more countries involved—and he would have even more to do.

The point we're making is that trade supports our lifestyles in ways that we take for granted, supplying us with everything from smartphones and lipsticks to sushi. We import services too, when we go on a foreign vacation, watch a subtitled movie, or call an international customer service line to complain about some podcast-branded merch going missing. (Just us?) And some of us have jobs that depend on these flows. Soumaya is forever grateful to everyone around the world who is paying to read (and thus import) the words she types each week for the *Financial Times*.

If you need numbers, during the 2010s Americans spent roughly one in every ten dollars on imports from the rest of the world, only a little more than residents of the EU did. Living in a smaller country probably means that you rely more on others. Individual EU member states import much more than a tenth of their spending because of all the trade flowing within the bloc; before Brexit, Britons imported approximately one in every four pounds of their spending. And from Ross and Furukawa to Soumaya, millions of people make all that exporting and importing happen.

Point taken, trade matters. But how much, really? Would the cost of a trade war really be so high?

As someone interested in waging a trade war, you accept the ancient military strategy of finding out how much is at risk before you charge into battle. As Sun Tzu wrote in his classic tome *The Art of War*, “He who wishes to fight must first count the cost.” As trade nerds, we are only too happy to help you assess what's at stake. But we'll begin by framing the issue a little differently, by examining what benefits trade can bring. The evidence isn't as good as we'd like, but there's enough to conclude that trade can bring prosperity, even if the gains are unequally shared. Then we'll flip to the costs of shutting down trade, which are clear enough to give any trade warrior pause.

If you ever took an economics class, you might vaguely remember the British economist David Ricardo. His book *On the Principles of Political Economy and Taxation*, published in 1817, wasn't exactly a page-turner. But it contained an important idea: that if two countries specialize and

trade with each other, they can both benefit. Even if one country is more efficient than the other in making everything, it can still gain from trade.

To see how, imagine two economists trapped on an island. One—let's call her Soumaya—is highly competent. She is fantastic at collecting firewood and excellent at foraging for food. She is the Katniss Everdeen of the island. Then there is Chad. He is . . . less competent. He's the character in *The Hunger Games* you don't remember because of how quickly he got wiped out.

Soumaya *could* ignore the hapless Chad and make her own provisions. But Ricardo's insight is that no matter how much incompetence surrounds her, she always has an incentive to work as a team. Soumaya and Chad should both benefit from specializing and then trading wood and food with each other. Chad may not be as good as Soumaya at finding anything—but he is different from Soumaya. And by leaning into his specialty (say, finding wood), he can free up Soumaya's time so she can lean into hers (say, finding food). There is always a way for both to specialize, swap, and benefit.

In the real world, the fruits of this specialization should show up in the form of lower prices relative to your income and a greater variety of stuff on offer. If you're already rich, you might not notice very much. (The improvement in Soumaya's haul might be only marginal.) But if you're poor, even small improvements might be the difference between a rumbling tummy and a full one.

Ricardo's model was very basic indeed. More modern treatments highlight the potential for trade to help workers in poor countries get richer by selling to other markets. In 2024, Bangladesh's fast-fashion workers supplied almost a fifth of the world's imported shirts for men and boys. Its local market simply wasn't big or rich enough to support that industry on its own. We're not suggesting that working in that industry is easy or that it's fair for anyone to earn a minimum monthly wage of around \$113 a month. But it might be better than the alternative. One study published in 2015 found that the women who had access to those jobs were more likely to enroll and stay in school and more likely to postpone marriage and children.

You can also think of trade as providing a sort of insurance, a backup in case plan A falls through. Though this backstop is particularly import-

ant for smaller countries, which find it harder to be self-sufficient, it is useful for big ones too. When American parents faced shortages of infant formula in 2022, Swiss producers stepped in. And for countries already sourcing from abroad, other partners can offer a useful fallback. After Furukawa's Italian rice suppliers faltered, the Vietnamese stepped up.

Perhaps the most exciting benefit of trade is that it drives efficiency and innovation, as it provides a vehicle for competition. Suppose you live in a closed economy with only one company to sell you a mobile phone. If you're in the UK, maybe that device doesn't have all the features available elsewhere. (Though Soumaya does sometimes miss her old pink flip phone.) In the US, Apple could well deliver you a great product, but it will cost you. With access to a choice of components from abroad—and with pressure from the likes of Samsung and LG—you should get a better deal.

We have hints of how big those gains could be. One study looked at what happened between 2000 and 2006, when China's exports to the US rose dramatically. As new companies started competing in the US market, the incumbents had to up their game while lowering their prices. The authors found that the import surge cut prices charged by American manufacturers by almost 8 percent. The competition worked directly and indirectly, with exporters from other countries competing in the US market often lowering their prices in the US too.

Other research has found that a country opening up to trade can boost productivity. After the Chilean government lowered barriers to imports in the late 1970s and early 1980s, for example, some plants shut down, and those that survived became more efficient. It might sound harsh, but that's how dynamic economies are supposed to work—inefficient companies close, and better ones get bigger. Economists have also shown that after it became easier for businesses in India, China, and Indonesia to import components, they became more efficient, possibly because the parts were of higher quality.

Trade allows industries to take advantage of economies of scale by selling to more customers beyond their own borders. It's what makes the cluster of Asian electronics producers so successful. Take the chip manufacturer TSMC, which sits on the island of Taiwan, population 23 million, only a little less than the population of Florida. If those

were the only customers available to TSMC, it would hardly be worth splurging tens of billions of dollars on a new factory.

Economies of scale can also encourage companies to invest in new ideas. One study examined the relationship between tariff cuts in the 1990s and patenting, concluding that “trade policy was an important factor driving global innovation” in that decade. Companies that saw their access to foreign markets increase also did more patenting, without any obvious decline in the quality of their ideas. For every 1 percentage point cut in other countries’ import taxes, companies’ patenting rose by between 2 and 3 percent.

We could go on. Isn’t it amazing that medicines discovered and made in other countries can make us feel better? The World Bank wrote in 2023 that trade had helped lift 1 billion people out of poverty in recent decades. Isn’t that fantastic? If trade is not only an engine of innovation but also helps ideas percolate around the world, we should be very cautious about cutting it off. As the economist Paul Krugman famously remarked, “Productivity isn’t everything, but in the long run it is almost everything.”

This trade stuff sounds *great*.

You don’t look very impressed and point out that our description of trade’s effects seems to be woefully one-sided. What about the costs? You’ve heard about poorer countries being suckered into producing basic commodities for richer ones. You’ve heard about businesses in richer countries offshoring production to places with shoddy labor standards and low wages, hurting the workers they leave behind. And you’ve heard about companies stifled by foreign competition. None of that sounds good.

Well . . . yes.

Returning to Soumaya and Chad on their island, it’s better to think of each of them having a team. Since Chad’s specialty is finding wood, Soumaya’s crew switches away from that task, leaving her star wood finders unhappy. Now that they’re competing with Chad’s team, their pay could go down, and they might have to find a new skill. Trade should still make both teams better-off overall, but it will also create losers within each. Although in theory it should be possible to compensate everyone who is hurt, in practice this doesn’t always happen.

The human consequences of a large trade shock can be devastating. In the 1800s, Britain displaced India's cotton textiles industry, thanks partly to its own technological advances (mechanization and factories) and partly to its policy of foisting free trade on India (which stayed open to imported British cloth). By one estimate, the most important textile-producing Indian state of Bengal lost the equivalent of over 500,000 industry jobs between 1810 and 1860. A firsthand account described the weaver caste as facing destitution and starvation. (Switching to a different profession would have been seen as dishonorable.) Ultimately, it took decades for the Indian industry to recover.

In the US, there are several examples of import competition having unequal effects. When Japan's exports to the country grew in the 1960s and 1970s, Black workers suffered most. They were less likely to have a high school diploma than their white colleagues were, which meant that they were hit harder when manufacturers competed with the foreign competition by employing more educated workers, including engineers. It looks as though racial segregation also made it harder for them to find new work afterward. Later, the introduction of the North American Free Trade Agreement (NAFTA), a deal among the United States, Canada, and Mexico, cut wage growth for Americans in directly affected industries (like shoemaking), as well those working in services nearby.

The most famous American example we have is the "China shock." Between 1991 and 2007, the share of US spending on imports from China rose more than sevenfold, an extraordinary increase. That hurt the American workers making competing products, killing their jobs and moving them onto disability benefits. The costs spilled over to their communities, depressing house prices as well as the local tax base, which made it harder to provide public services, including schools and transport. Men were less likely to get married, and children were more likely to be raised in poverty. Opioid abuse and suicide rose.

Shocks don't necessarily hit this hard. One study found that when Canada opened up its market to imports from the US in the late 1980s, some workers did lose their jobs but then quickly recovered by moving into other industries, including those expanding because of opportunities to export to the US. Arguably, the China shock hurt so much worse because its effects were so concentrated in labor-intensive manufacturing,

affecting very specific types of jobs, places, and even companies. And when the effects were so focused, the workers who lost their jobs had nowhere else to go.

Thanks to the election of President Trump—another consequence of the China shock—that episode got the most attention in the US. But Britain also experienced its own version. A surge in Chinese exports over a similar period hurt the wages and employment of competing British workers, particularly women and those who had started off low paid. And other research found that exposure to trade in services could have unequal and long-lasting effects too. When the EU dropped barriers to trade in services among its members, it became easier for, say, Polish plumbers to accept contracts in France at lower wages, costing their French competitors work. One study found that unemployment in particularly exposed areas rose and over ten years later still hadn't fully recovered.

As for the effects of trade on innovation, there was a wrinkle in the result we shared earlier, showing the relationship between lower tariffs and higher patenting. That study focused on the effects on innovation of companies gaining extra access to foreign markets, which were overwhelmingly positive. But it also found that when companies faced stiffer competition in their home market, patenting fell. Separate research found similar effects among the US companies that faced competition from China in the 2000s.

It's also possible that openness to trade could set up booby traps by pushing countries to specialize in the “wrong” industries or those not associated with long-run productivity growth. Historically, countries have typically become richer partly by moving into more sophisticated manufacturing, not by growing more basic commodities such as bananas. In the mid-2010s, economists started to fret about “premature deindustrialization,” worrying that Asian countries had become so good at manufacturing that other countries had effectively lost their ladder to development.

Finally, we agree that openness to trade could leave you vulnerable. If your economy is very reliant on imports or exports, others might see you as a target and threaten to shut off their supplies or cut off your export markets unless you do their bidding. If you are borrowing vast sums to pay for imports, you could even spark a financial crisis.

Maybe this trade stuff doesn't sound so great after all.

• • •

Some numbers to summarize all these results would be handy here—aren't we supposed to be nerds? We are . . . though good luck to anyone trying to quantify the risks associated with premature deindustrialization, financial crises, or foreign coercion. And frankly, it's difficult even to compare the direct costs and benefits of trade liberalization. How should we think about combining the joy of a bargain with the grief of losing a good job? Or synthesizing the gains from slashing extreme poverty in poorer countries with the costs of dislocation in richer ones?

Economists have tried, and trust us when we say that if we attempted to run through the math, your eyes would glaze over faster than Soumaya's cat can sense a can being opened. The research tends to find that the effects of opening up to trade are positive—but pretty small. One well-cited study estimated the effects of China entering the World Trade Organization in 2001 on the US economy, combining the effects of access to cheaper goods and job dislocation. For all the drama, by its estimation overall consumption increased by a whopping, *staggering* . . . 0.2 percent.

Candidly, the empirical evidence linking trade openness to economic riches leaves a lot to be desired. Ideally, you would look at a country and compare it to the same country in an alternate universe, the only difference between the two being the country's openness to trade. If one is doing better than the other, fabulous. But sadly, the laws of physics mean that we can't do that. So for a long time all we had to go on were basic correlations between openness to trade and economic performance, showing how they rose and fell together. That was suggestive but not proof that one was causing the other. (Umbrella sales increase when it rains but don't cause precipitation.)

We wouldn't blame you for looking about as doubtful as Chad's wife does when he makes gluten-free apple pie. (It's really, *really* bad.) If big gains from trade are this hard to find, maybe they don't exist—and perhaps closing off to trade wouldn't have much effect.

Enter James Feyrer, a cheery economics professor at Dartmouth College, who doesn't really think of himself as a trade economist. His professional passion is rooting around for evidence of what affects the economy as a

whole. In doing so, he managed to make two important contributions to answering our question of whether trade really makes us much richer.

The first was a paper investigating what had happened when air travel took off, as it cut down the effective distance between countries. That should have made trade easier everywhere, but some countries were affected more than others. Trade between, say, Japan and the United Kingdom should have been helped a *lot*, because before air travel, shipping goods by boat took a really long time. The innovation should have been less revolutionary for trade between Japan and America's west coast, because the sea-lanes were already pretty fast.

As different connections were affected by different amounts, it occurred to Feyrer that the revolution in air travel should have had correspondingly different effects on trade—and on gross domestic product (GDP, a measure of a country's production or income). He ran the numbers and was delighted with the “blinding” results. Looking at the period between 1960 and 1996, he found that for every 1 percent increase in trade, GDP rose by 0.5 percent.

That finding was powerful, and Feyrer saw it as capturing the effects of globalization at large, or “everything that goes with both people and goods moving together,” as he told us. His estimate captured the effects of freer trade in both goods and services. The easier air travel didn't only help fresh-cut flowers and electronic devices flow more freely, it also helped people trot around the globe, spreading ideas and powering productivity.

Next Feyrer wondered what had happened when key waterways opened, making shipping faster. He started researching the Suez Canal. And there it was, another natural experiment. In 1967, during the Six-Day War, the Egyptian government closed the canal, effectively turning it into a trench between Egypt and Israel. It didn't reopen for eight years.

Again, some journey times were more affected than others, giving Feyrer another opportunity to identify the impact of trade on the size of an economy. The results were striking: For every 1 percent more trade by a given country, GDP per person grew by as much as 0.25 percent. That effect was half as big as the one in his first paper. But his calculation was also measuring something narrower; as it focused on

flows of stuff through the Suez Canal, it captured something closer to the effect of trade in physical goods.

Feyrer's studies aren't the only evidence for trade boosting people's incomes. A review of the research by the economist Doug Irwin also found that when countries go from being very closed to quite open, they enjoy a bump to their growth. The World Bank calculated, for example, that within three years of countries like Bangladesh, Cambodia, and Vietnam joining a global manufacturing supply chain for the first time, GDP per person tended to enjoy an uplift of around 20 percent. That is not to be sniffed at.

We promised we would aim for balance, and overall, we think that trade obviously isn't good for everyone in all circumstances, but that it can still be worth pursuing. We're also open to the idea that some trade wars are worth fighting. (We'll get to why later on.) But however reasonable your grievances with the trading system are, avoiding collateral damage for your economy will be tough. If the disruption from opening up to trade decades ago was hard to deal with, the dislocation from closing it down again won't be smooth, either.

After all, we have recent experience—and our imaginations—to guide us.

Take Britain's decision in 2016 to leave the EU. The UK Treasury actually cited Feyrer's work when trying to persuade British voters that that would be a bad idea. After it failed, one group of economists analyzed surveys of companies' decision-making and compared Britain's performance with that of a basket of similar countries, reaching the pessimistic conclusion that Brexit had hurt the UK economy by between 6 and 8 percent. That's around the effect of an average war.

In the US, company shareholders didn't enjoy being dragged into trade conflicts. Over the week after President Trump's "Liberation Day" tariff announcement on April 2, 2025, the S&P 500 stock index fell by 12 percent, erasing trillions of dollars of value from listed companies. CEOs got to work lobbying the president for a reprieve. The S&P 500 did recover, remarkably quickly in fact—but only after the president partially pulled back. As the months went on, the tariffs became harder to spot in the prices of stocks but easier to see in those

paid by consumers at the store. In June 2025, a survey of firms by the Federal Reserve Bank of Cleveland found that around a fifth had scaled back on hiring staff or investing because of the uncertainty.

Despite warnings, in neither case did trade barriers cause a sharp recession. Instead, the broader economic damage showed up gradually.

Those two examples each involved one country erecting trade barriers with the rest of the world. What about a broader trade conflict? One study by a group of researchers at the International Monetary Fund (IMF) estimated what would happen if trade in energy and high-tech manufacturing between rival blocs were shut off. (It split the blocs according to who had voted to condemn Russia's invasion of Ukraine.) Assuming that over the long run, companies and economies adjust, they calculated a permanent drag on global GDP of at least 1.5 percent. Admittedly that's not *fun*, but it's short of world-shaking.

But these results can be sensitive to what you assume about how easily part of your economy can adjust. If you can't substitute away from imports because your climate is too cold to grow your own rice or your plumbers can't become computer chip manufacturers, trade restrictions will be more damaging. More extreme rifts will get you worse results too. Other researchers, also at the IMF, looked at what could happen if rival blocs couldn't trade *anything* with each other and substitution was tricky, and came up with a GDP drop of as large as 7 percent. (For comparison, global GDP growth contracted by 6 percentage points during the covid-19 pandemic.)

Those economic modelers emphasized that when you shut off trade, you experience an immediate sting from the short-run dislocation. Goods and services that were previously imported will become more expensive, while some people could struggle to adjust after losing their trade-related jobs. Over the longer term, the more powerful effect is that with less trade, ideas and technology don't travel around the world as easily. That is particularly hard for poorer countries, which stand to benefit most from catching up to the cutting edge.

Such economic models can only capture so much. So really, if you want the fullest warning possible of what a trade war could cost you, you're going to need to use a bit of imagination.

Think of an adversary trying to disrupt the infrastructure supporting international trade. It attacks cross-border flows of services first, using naval drones to slash undersea internet cables faster than they can be repaired. (As of 2024 it seems there were only approximately sixty cable repair ships on the job.) Websites go down, your video calls have glitches, and the reliability of international connections falters.

Next the tensions spread to space, where adversarial countries knock out each other's satellites, disabling global positioning systems (GPS). (Russia has already been accused of jamming the GPS of commercial aircraft flying over the Baltics.) Communication as we know it stops working. Planes can't fly. It is possible to navigate a ship without GPS; navies did it for centuries, after all, but that was a while ago. Sea voyages will take more time and will require training many more seafarers, which again takes time.

During recent conflicts, shippers have found ways to get around blockages. When the Houthi militant group in Yemen disrupted trade routes by attacking ships in the Red Sea, for example, vessels instead took the longer route around the Cape of Good Hope in South Africa. Even after Russia's invasion, the Ukrainian government managed to keep cargo ships flowing, partly by offering insurance to those sailing along dicey routes. But just because recent conflicts have been contained, it doesn't guarantee that future ones will be. At some point a broader blockade becomes impossible to dodge.

In the short term, the most extreme trade blockage would mean shortages, panic buying, and price increases. At the beginning of 2025, American retailers held inventories worth only a little over one month of their sales. So it really wouldn't take long for problems to show up. Perhaps people become a little more fearful of dropping their phone into a puddle. Perhaps cars are sold without a fancy radio installed. Just as likely, carmakers and their suppliers will sit idle, waiting for some cheap component that is vital for keeping production lines going.

Sure, losing a phone isn't the end of the world. It might even make you happier. But if highly globalized pharmaceutical supply chains snap, the consequences could be more severe. Imagine shortages of vaccines, antibiotics, and anesthetics. (Soumaya gets jailed after she burgles a neighbor's stash of painkiller syrup for her cold-ridden kids.)

Or suppose some scientist discovers a general cure for cancer but isn't allowed to share it beyond their country's borders.

Medicines have generally been carved out of recent trade tiffs. After Russia's invasion of Ukraine, Western sanctions mostly didn't touch pharmaceutical products, and crucially, the country was able to source basic ingredients from India and China. Still, after Russia lost access to Novo Nordisk's Ozempic, it took nine months for cheaper copycat versions to become available as it issued "compulsory licenses" to allow local companies to bypass normal patent law to make them themselves. And doctors complained about the local replacements for other life-saving drugs having side effects.

Even the worst of those IMF scenarios don't include violently changing flows of finance around the world, sending interest rates and exchange rates haywire. The US government could cause financial panic by applying broad controls on who is allowed to use the dollar; the Chinese government could cause havoc by dumping the foreign debt it holds. If an economic crisis hits and the world's central banks can't cooperate to stabilize the financial system, we're looking at a deep recession.

Now think of cyberattackers cutting off a country's gasoline and diesel fuel pipelines, interrupting food supply chains. Or the electrical grid going down in the middle of winter, freezing those unable to get help in time. The big macroeconomic models analyzing worst-case scenarios assume that with time, people can find substitutes for sanctioned trade. But in a highly networked world, a lot of chaos could ensue in the meantime.

You have absorbed our message: that although the evidence isn't perfect, a trade war would clearly bring some pain—quite a lot if the various sides try their hardest to blow one another up. You make a note to be careful. Still, that trade war is looming. Perhaps it's the kind that is worth suffering for. Or perhaps someone else has already started the fight and your only choice is to defend yourself.

It's great that you're with us so far, but we've actually got some more stakes to share. When you join a trade war, there is more at risk than prosperity; peace is on the line, too. After all, there's something worse than being poorer: being dead.