



The Daily Dish

China Trade Deal

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Eakinomics: China Trade Deal

President Trump, citing progress toward a trade deal with China, has [delayed](#) the March 1 deadline for raising the tariff on \$200 billion worth of Chinese goods from 10 percent to 25 percent — a [hike on domestic consumers](#) of \$30 billion. He tweeted, “As a result of these very productive talks, I will be delaying the U.S. increase in tariffs now scheduled for March 1. Assuming both sides make additional progress, we will be planning a Summit for President Xi and myself, at Mar-a-Lago, to conclude an agreement. A very good weekend for U.S. & China!”

But what exactly does that trade deal look like?

At one end of the spectrum would be an agreement for China to purchase more U.S. exports —reports suggest new U.S. exports in excess of \$1 trillion in soybeans, computer chips, and other goods to China. This concession from China evidently holds some appeal to the administration, given its [irrational](#) obsession with the bilateral trade deficit of roughly \$335 billion between the United States and China. Unfortunately, if this were the only change in the trading environment, it would be [doomed to fail](#). The overall trade deficit — roughly \$550 billion — would be unaltered. Any reduction in the China bilateral deficit would be offset by a rise in the deficit with other trade partners. In the extreme, in fact, the entire increase in purchases by China could serve merely to raise the value of the dollar relative to the yuan (or, the mirror image, lower the value of the yuan), increase the demand for imports from China, offset the increase in exports dollar for dollar with higher imports, and leave the bilateral deficit unchanged.

Perhaps because of this logic, there are also reports of a “currency agreement” that would limit the ability of the yuan to depreciate in this way. That might “solve” (as if price-fixing ever solved anything) the bilateral trade problem, but would still run into the fact that there is no reason for the overall deficit to change.

So, why is the president so optimistic on a deal that he is seemingly [previewing a signing summit](#) in the near future? Perhaps there has been considerable behind-the-scenes progress on the structural reforms — protection of intellectual property, capacity of U.S. firms to enter and compete in certain Chinese markets, reduced requirements for joint ventures with Chinese firms, and so forth — that these merit being enshrined in a trade deal. But given the short amount of time allotted to the negotiations, this seems like an impossibly large agreement to reach. And there remains the issue of enforcing such an agreement in the future.

Markets have reacted positively to the reports, and that makes sense. Avoiding \$30 billion of self-inflicted harm certainly is reason to celebrate. But the festivities should be kept to a moderate level; it seems unlikely that a major victory is in the offing.