



Insight

President Trump's New Trade Deal with China

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President Trump has been negotiating a trade deal with China since he took office in early 2017. This month, he announced that “phase one” of the deal is nearly complete – a deal that President Trump and President Xi are expected to sign formally at the Asia-Pacific Economic Cooperation summit in November. While full details are not yet available, reports indicate that the agreement is mostly a Chinese pledge to increase purchases of U.S. agriculture goods – a beneficial development for U.S. farmers, but hardly worth the years-long tariff escalation between the United States and China.

The agreement has a few components. First, China agreed to purchase \$40 to \$50 billion of U.S. agricultural products each year, including 20 million metric tons of soybeans. This pledge is significant: Soybean exports have fallen significantly in the wake of President Trump's trade war with China, with Brazil replacing the United States as China's top supplier of soybeans. For perspective, before the president's tariffs, China purchased [half of all U.S. soybean exports](#), totaling an average of [30 to 35 million](#) metric tons annually. While this agreement is a positive step forward, it falls short of fully restoring the Chinese market access that U.S. farmers have lost due to U.S. tariffs and Chinese retaliation.

The deal also [reportedly](#) covers technology, currency, and financial services, and additionally includes a Chinese pledge to purchase Boeing aircrafts. There is little information available on these provisions, so they are difficult to assess. The agreement on technology is likely aimed at reforming unfair Chinese trade practices such as intellectual property (IP) theft and forced technology transfer, while the provisions on financial services are likely to ease market access restrictions in China that harm U.S. banks and credit card companies. Both are worthy negotiating goals. It remains to be seen whether the United States has been able to negotiate anything substantial, or even enforceable, without the help of the international community or World Trade Organization.

There is also no available information on how the deal addressed Chinese currency management. Earlier this year, the United States [formally designated](#) China a currency manipulator, the first time a designation of this kind has been made since 1998. Reports suggest that the United States may rescind that designation as a part of the deal with China. Alternatively, there may have been a symbolic agreement to bar Chinese currency manipulation moving forward. It is doubtful, however, that any agreement on currency would be enforceable. An enforceable agreement on currency manipulation would likely expose the United States to penalties if the Federal Reserve conducts expansionary monetary policies of any kind that lower the value of the dollar – such as its recent decision to lower interest rates.

The last part of the deal involves a pledge from President Trump to halt a planned tariff increase on roughly \$250 billion of Chinese goods previously scheduled to go into effect on October 15. To date, the president has imposed or ordered tariffs on essentially all U.S. imports from China, valued at roughly \$530 billion annually. These tariffs increase nationwide consumer costs by over **\$100 billion per year** – increasing prices for U.S. consumers and raising the cost of intermediate goods, which increases the cost of domestic production. President Trump’s decision to halt the next tariff increase on China will prevent costs from rising for Americans by roughly another \$10 billion per year.

President Trump’s tariffs are not a good negotiating tactic, as demonstrated by recent history. They harm the U.S. economy and have been met with retaliation at every turn. By reversing the president’s next planned tariff increase, the “phase one” trade deal with China will benefit American consumers. But the main benefits of this agreement, larger agriculture and aircraft purchases, are not large enough to justify the years of global tensions that President Trump’s trade policy has caused. Further, any successful deal with China must also meaningfully tackle issues, such as Chinese IP theft, that have plagued the global trading system for decades. These issues will hopefully be addressed in future talks, but they are unlikely to be resolved with bilateral negotiations alone.