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5 on 45:
On U.S.-China trade policy

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PITA: You’re listening to 5 on 45 from the Brookings Podcast Network: analysis and commentary from Brookings experts on today’s news regarding the Trump administration.

(Music)

PRASAD: I’m Eswar Prasad, a senior fellow in Global Economy and Development at The Brookings Institution. Donald Trump and Xi Jinping are going to meet later this week in an informal setting, which would reduce any expectations that there are going to be any major, concrete outcomes out of the meeting. But this is still an important meeting, because these are the two largest economies in the world and if they don’t have a smooth relationship, that could be disruptive to international trade and even add to volatility in international financial markets. The big challenge for Mr. Trump will be to pick the right fights with Mr. Xi, rather than reverting to talking points from his campaign trail.

On the campaign trail and even after he entered the White House, Mr. Trump has attacked China for two issues. One is the charge of currency manipulation by China. The second is the large bilateral trade surplus that the Chinese run with the U.S. On the first issue, that is, currency, there is little merit to the argument Mr. Trump has been making. If anything, China has in fact been doing the U.S. a favor by not letting its currency, the renminbi, fall in value relative to the U.S. dollar, which is what financial markets seem to want. Mr. Trump, instead, has been arguing that China is trying to prevent its currency from appreciating, or rising in value, thereby giving China an unfair export advantage. That charge has not had an economic basis to support it for the last couple of years.

There is more merit to the issue that China is running a large bilateral trade surplus with the U.S. China sells, each year, about $350 billion more worth of goods than the U.S. sells to China. But focusing on the bilateral trade deficit and reducing it as an objective in itself may not be the best way to proceed. In fact, if Mr. Trump were to try to deal with China and the bilateral deficit the U.S. runs with China, by either calling China currency manipulator or by imposing tariffs against imports coming in from China, that could actually lead to a tit-for-tat series of restrictions on bilateral trade and investment in both directions that could end up eventually hurting both economies.

What Mr. Trump ideally should focus on are matters that would serve U.S. economic and business interests much better, both in the short run and in the long run. In particular, what Mr. Trump could try to do is to get China to provide better access for U.S. producers to China's large and growing markets. In addition, liberalization of foreign investment in key sectors, especially financial services, could help American firms that want to set up or expand operations in China. There are other areas of great interest to American businesses, including the protection of intellectual property rights, which China has been rather lax at. Focusing on these issues would not only benefit the U.S. economy in the long run, but would also garner broader international support for Mr. Trump in grabbing from China the narrative about how to structure the global trading system in a way that spreads the benefits of such trade more evenly across countries. In fact, by taking the high road on these issues by focusing on market access, greater protection of intellectual property rights, and perhaps even greater environmental and labor standards—which the Chinese seem to be more keen on right now than the U.S.—that could actually help Mr. Trump expand American jobs, promote a more vibrant and dynamic economy, and make the case that the U.S. is really keen to promote the right kind of global multilateral engagement, which I think would help U.S. both in terms of its economy and its global leadership over the long run.

(Music)

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