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Trump And China: Good Intentions, Bad Politics, Worse Math

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Let me be the first to admit I am not certain what the Trump Administration is up to, or whether it will bear fruit, when it comes to China but somehow I think North Korea is tucked in there somewhere.

While it's OK that I'm not sure, it's not OK if the Trump Administration isn't sure.

"Trump's schizophrenic China trade policy is a menace to the global economy, yet again. The president seems to thrive on the uncertainty and chaos that his version of leadership churns out on a daily basis, but whether any of this actually happens is anyone's guess." That's from the Cato Institute's trade policy export Dan Ikenson, as quoted in Politico.

That's not to suggest that there's not a noble and righteous cause behind the effort.

China should not steal intellectual property from U.S. companies, should not strong-arm U.S. companies to turn over intellectual property to do business there -- nor should they allow themselves to be strong-armed -- and should not keep its outdated high tariffs on U.S. exports. It is also time that it be treated as the power that it is rather than as a developing economy, from a WTO perspective.

But for the administration to suggest that it would impose 25% tariffs on somewhere between $50 billion and $150 billion in Chinese imports in order to reduce the trade deficit, to then back off, to then restate those plans on Tuesday as Secretary of Commerce Wilbur Ross' planned trip to China loomed, and on Wednesday to suggest the trip might be off, well, that's beyond confounding.

While it might gain the attention of the Chinese, the media and the world's financial markets, it does little to target the real issues.

If it's posturing, it's bad posture and it's time to stand up straight.

What's equally confounding is what exactly the administration plans to target in order to reduce the deficit by $200 billion over the next three years, as has been reported. The administration has indicated that in mid-June it will release its list of Chinese imports that will be subjected to the tariffs.

It's not only bad politics, it's bad math.

Let's do the math. Let's assume the goal is to reduce the U.S. deficit by $200 billion in three years, as has been reported. That would leave a U.S. deficit with China of about $175 billion, still the largest in the world.

Let's stipulate that increasing exports is off the table in the current environment. In truth, U.S. exports would likely drop. But for the sake of this exercise, let's stipulate that a trade war, or a tit-for-tat tariff battle, doesn't decrease U.S. exports, although it likely would.

Let's further stipulate that the average tariff currently being paid for Chinese imports, at about 2.7%, roughly double the average for U.S. imports globally, is what the tariffs would be on whatever goods the administration slaps with 25% tariffs. That means the effective tariff would be in the range of 22%.

One last stipulation, and it's an important one: Trade data does not include the value of the tariff, just as it does not include the cost of transportation or insurance. So, it's not really clear how the tariffs reduce the deficit other than by inhibiting imports. The only way to do that is reduce demand and consumption in the United States. That's what some call a recession.

But let's ignore that for a moment and make a direct correlation between tariffs and the deficit. To decrease the U.S. trade deficit by $200 billion in three years, you need to reduce it just under $70 billion per year. Here comes the faulty logic, but just to make a point: To get to $70 billion in deficit reduction annually, you need to collect tariffs on roughly $310 billion in imports -- or about 60% of all U.S. imports from China.

Complicating this is that the Chinese have shown they will go tit-for-tat and impose tariffs on U.S. exports to China, as announced Wednesday. Said a Chinese foreign ministry spokeswoman: “Every flip-flop in international relations simply depletes a country’s credibility.”

Forget how this might affect U.S. exports -- China is the United States' third most important export market, trailing only Canada and Mexico -- a look at the leading Chinese imports makes it pretty clear how silly it will be to try to implement tariffs to significantly affect the deficit without causing pain to U.S. consumers and businesses.

So far this year:

- 13% of U.S. imports from China are cell phones and related equipment;
- 8.9% are computers;
- 2.9% are computer parts;
- 2.4 percent are furniture;
- 1.9% are toys and games;
- 1.9% is computer monitors and TVs;

That's almost one-third of all Chinese imports. You leave these off the list, almost everything else goes on. You leave these on the list and you have a profound and immediate impact on everyday people and business.

So, good intentions, bad politics, worse math.