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Trump is demanding China make a gargantuan economic change

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President Donald Trump's administration is making a monumental demand in trade talks with the Chinese government— and the hard-line tactic could have significant economic downsides.

According to multiple reports, the Trump administration's delegation to China included a request for a $200 billion cut to the US-China trade deficit by the end of 2020. That represents nearly a 60% reduction — two nations' 2017 trade deficit was $336 billion.

Even if the goal is reducing just the goods trade deficit, a particular focus for Trump, that would mean the US would be asking for a 53% reduction in less than two years.

The US delegation also requested significant reforms regarding China's treatment of foreign technology, as well as the protection of US companies' intellectual property in China.

In return, the US offered to back down on trade restriction threats. Trump recently imposed tariffs that target $50 billion worth of Chinese goods. He has suggested adding tariffs on an additional $100 billion of Chinese goods in the near future.

The demands indicate that the more hardline members of Trump's administration, such as Peter Navarro, the head of the White House National Trade Council, are taking the lead in negotiations, rather than the more free-trade faction that includes top economic adviser Larry Kudlow.

Chinese officials said the demands were "unfair" and that "big differences" remained between the two countries.

Such concessions would require massive changes in the Chinese economy and fundamental shifts in how the country operates, leading most experts to believe it is unlikely China agrees to the demands.

Simon Lester, associate director of the Cato Institute's Center of Trade Policy Studies, sounded an incredulous tone after reading the US demands.

"Did anyone from the US trade delegation think there was a chance China would agree to anything close to this?" Lester tweeted. "Or was it designed to be rejected by China, and the US would go ahead with tariffs?"

In return, the Chinese demanded that the US drop restrictions on Chinese-made tech.

'The situation may get worse'

Haibin Zhu, chief China economist at JPMorgan, wrote in a note to clients Friday that the back and forth suggests the two countries have a long way to go to repair their trade relationship.

"The gap between US's demand list and China's offer list is very large, hence the upcoming negotiation will be bumpy and the situation may get worse before getting better," Zhu wrote.

The talks are expected to continue in the near future, with the Chinese potentially coming to Washington to meet with the US delegation and Trump.

But the distance between the two sides is risky, Zhu said, because neither budging means the risk of a trade war is escalated.

"The biggest risk at this stage, in our view, is that both sides seem to have the wrong perception of the counterpart's bottom line, and both sides seem to have under-estimated the losses if a trade war eventually occurs," Zhu said.