Todd G. Buchholz, Expert Economist and Author, Details Trump’s Deal or No Deal for China

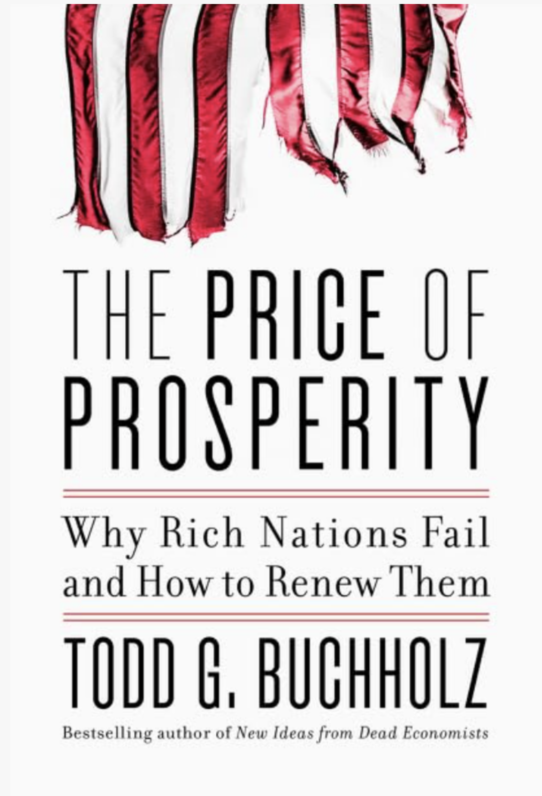
LOS ANGELES, CA, UNITED STATES, November 25, 2024 /EINPresswire.com/ -- Chinese emperors took power with a “Mandate from Heaven.” President Trump has something better, a Republican sweep of the White House, Senate, and House, says Todd G. Buchholz, best-selling author and top economic expert. China’s near-Emperor Xi Jinping is now worried about Trump’s pledge to place a 60% tariff on its exports and to crack down on Chinese components sneaking into the U.S. through Mexico.

Trump has spent years bashing China, though he has also had time to bash Snoop Dog and Robert De Niro. Since Trump is a legendary negotiator, here is a more clever way to help U.S. consumers and businesses: Rather than imposing towering tariffs, Mr. Trump should tell China to rip up its massive holdings of U.S. debt, Buchholz argues.

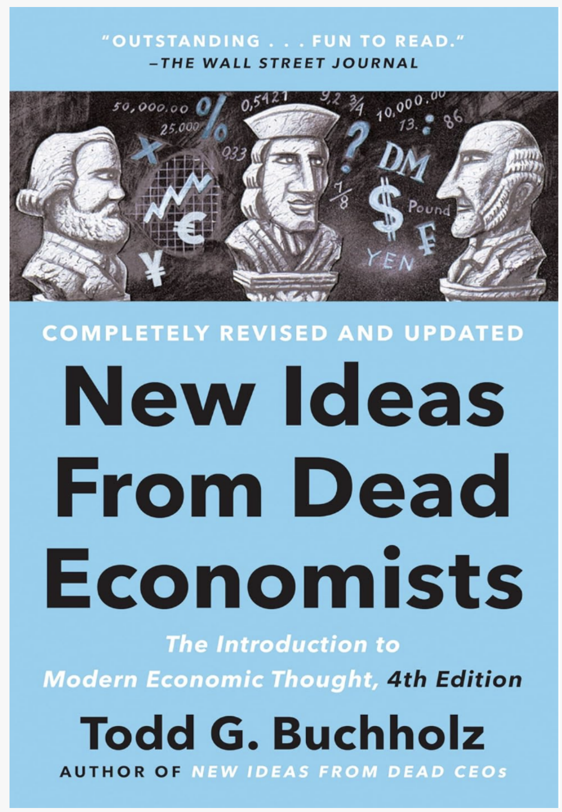
Trade barriers and U.S. debt are connected; they’re not distant planets circling in disparate orbits. Canceling debt would partly offset China’s currency manipulation and trade infractions, explains Buchholz.

The People’s Bank of China holds nearly $800 billion of U.S. Treasuries. How did a poor country amass more than the UK, which has been snapping up U.S. bonds ever since Treasury Secretary Alexander Hamilton got into “the room where it happens”? By generating mountainous trade surpluses. Over the past 10 years, the U.S. merchandise trade deficit with China has averaged $524 billion, while the value of the Yuan has dipped 16 percent. To prevent the currency from appreciating, China buys U.S. bonds. Remember, a portion of those dollars flowed to China precisely because it held down the value of the Yuan and held up the ability of U.S. firms to run their businesses in China in a fair and non-pirated way, Buchholz adds.

"You could play a very long mahjong game before economists would agree on the exact statistical relationship between the exchange rate and exports," states Buchholz. But Mr. Trump would stand comfortably among mainstream research if he asserted that the Yuan is undervalued by a modest 15 percent (the Economist “Big Mac” index suggests 37 percent, which is close to the estimates of the Coalition for a Prosperous America, a group of U.S.-based businesses). A 15 percent rise in the Yuan could erase perhaps $90 billion from the annual $524 billion merchandise trade deficit. Therefore, Mr. Trump, his hard-nosed former chief U.S. trade negotiator Robert Lighthizer, and his Treasury Secretary could request that the Chinese write off $90 billion of their holdings of U.S. Treasuries, to represent ill-gotten or, shall we say, cleverly-gotten gains. Of course, they could pound the table even harder and claim that the Chinese owe at least 6 years “backpay,” which would mean tearing up half the bonds, suggests Buchholz.



The U.S. would make clear to China and to global investors that it is not reneging on its debt. In fact, Article 4 of the 14th Amendment insists that the debt of the U.S. “shall not be questioned” (though Congress’s establishment of a “debt ceiling” might do that anyway). Instead, the U.S. would offer China open access to its markets in exchange for certain pledges: (1) to open its markets; (2) to refrain from intellectual property piracy; (3) and to surrender a small portion of gains earned through currency manipulation (held in the form U.S. bonds.) Under this proposal, how would the U.S. treat those bonds if China walked away from the table? They would still be 100 percent valid, tradable, and backed by the full faith and credit of the United States of America. In other words, the debt is sacrosanct; but the holder has the option to give them up, Buchholz informs.



Why would Mr. Trump want to do this? First, he could claim that he, alone among U.S. presidents, is wresting reparations for China’s tactical economic strikes on U.S. factories. Second, the U.S. debt is spiraling upward, past 100% of GDP, while interest on the debt now surpasses defense spending. Moreover, we are hitting these treacherous levels at a time of relative peace and prosperity, compared to the rest of the world. What happens when peace or prosperity stumbles? Third, a marginal decline in the supply of U.S. debt would marginally hold down interest rates, further feeding economic expansion, Buchholz adds.

To the Chinese, this proposal would reinforce their view of Americans as barbarians at the gate. But there's little doubt that President Xi's trade advisers are already drawing up offerings, whether buying U.S. semiconductors, Boeing jets, or every soybean sprout that pokes out of North Dakota's soil.

"When the Chinese scoff at my proposal, Mr. Trump could offer a compelling fallback position. He could tell President Xi that instead of totally erasing $90 billion of bonds, the bonds could be surrendered to the U.S. Treasury, and the new Secretary would mail to Beijing $45 billion zero-coupon infrastructure bonds that would kick off Mr. Trump's long-awaited drive to rebuild America's roads, bridges, and airports. And if Mr. Trump wants to get particularly crafty, he could funnel away $15 billion and build a wall…somewhere. China will scream to high heaven, but who would listen? The American people have spoken," Buchholz concludes.

Todd G. Buchholz, a former White House director of economic policy and managing director of the Tiger hedge fund, is the author of The Price of Prosperity: Why Rich Nations Fail and How to Renew Them (HarperCollins) @EconTodd

Amanda Kent
Boundless Media USA
+1 313-403-5636
email us here