

# China Beware

## Trump Tariffs Are Coming!



Image: Freepik

Beijing braces for renewed rivalry as Trump returns for a historic second term.

Andrew K P Leung, SBS, FRSA, International and Independent China Strategist, Hong Kong

**C**ontrary to earlier predictions of a nail-biting contest, Donald Trump has managed a stunning comeback, securing 295 electoral votes against Harris' 226, well exceeding the 270-vote threshold. He also won some 4.7 million more popular votes than Harris. He also pulled off a historic win as he becomes only the second president in the history of America to serve non-consecutive terms after Grover Cleveland (1884 and 1892). Trump will become the 47<sup>th</sup> President of the United States in January with an undisputed electorate mandate to steer the American nation and its world leadership.

During his first term as President, Trump already stacked the Supreme Court with pro-Republican judges-for-

life. For his second term, as revealed by the Trump-inspired, albeit later disowned, "Project 2025", he is set to turn the whole federal bureaucracy into his "fiefdom", vetting and removing "disloyal" civil servants, whatever their merits.

Adding to the Republican Party's winning comfortable majorities in both the House and the Senate and the expected appointment of a compliant cabinet, Trump will be unrestrained like an "American emperor" for the next four years. He is therefore set to become America's historically most powerful President since Franklin D. Roosevelt, the 32<sup>nd</sup> US President (1933-1945), not only in terms of domestic politics but also in terms of America's gravitas in setting or resetting foreign relations and the world order.

### Tariff myths

On trade, Trump has a solid penchant for weaponizing tariffs to get what he wants. He has vowed to impose across-the-board 10-20% tariffs on ALL imports, including at least 60% tariffs on China's imports. He even touted tariffs as a good substitute for income tax.

Global experience has shown that tariffs would raise importers' prices for domestic consumers. And as the US heavily relies on imports, especially from China, for the vast majority of everyday household goods and equipment, American consumers will bear the brunt of much higher prices for their livelihood, lowering taxation notwithstanding. Neither would tariffs restore America's bilateral trade bal-

ance with China, the world's largest trader and manufacturer. What China wants most from the US, such as cutting-edge semiconductor technologies, are being drastically restricted or prohibited? Some Chinese imports to the US may be sourced from other countries, but are unlikely to match Chinese imports in quantity, quality, price, and availability. Nor would switching sources of import result in America's positive national trade balance, as the US no longer produces enough to offset total imports from whatever source. Neither would most of the jobs represented by imports return to the US, due to America's prohibitively higher production costs, despite tax cuts and subsidies.

### China's tariff vigilance

During Trump 1.0, Beijing learned a great deal from America's tariffs and his megalomaniac "art of the deal". The subsequent Joe Biden administration has not only continued but double-downed on the Trump 1.0 tariffs against China, along with the most severe restrictions against China's access to American cutting-edge technologies, either directly or indirectly, including channels through other nations and even US-China academic exchanges.

But this time around, China has been well prepared. On trade, China has vastly expanded its trade and investments with the Global South, including the Brazil, Russia, India, China, South America (BRICS) Group countries whose aggregate gross domestic product (GDP) in purchasing power parity terms is now bigger than the "G7" group of advanced countries, including the US.

Thanks to the desire for hedging against America's long-armed economic hegemony, more and more countries are now joining the BRICS-Plus Group, including Saudi Arabia, United Arab Emirates (UAE), Iran, Ethiopia, and Egypt as well as two dozen other countries that have applied for or are considering membership in this expanding club.

The expanding BRICS-Plus Group is not meant to be an anti-West bloc.



Nearly all of these countries, India, Saudi Arabia, and UAE included, want to maintain good relations with the US. Nevertheless, this fast-expanding grouping will likely morph into a mutu-



Andrew K P Leung

ally beneficial platform promoting common developmental interests relatively insulated from hegemonic American coercion.

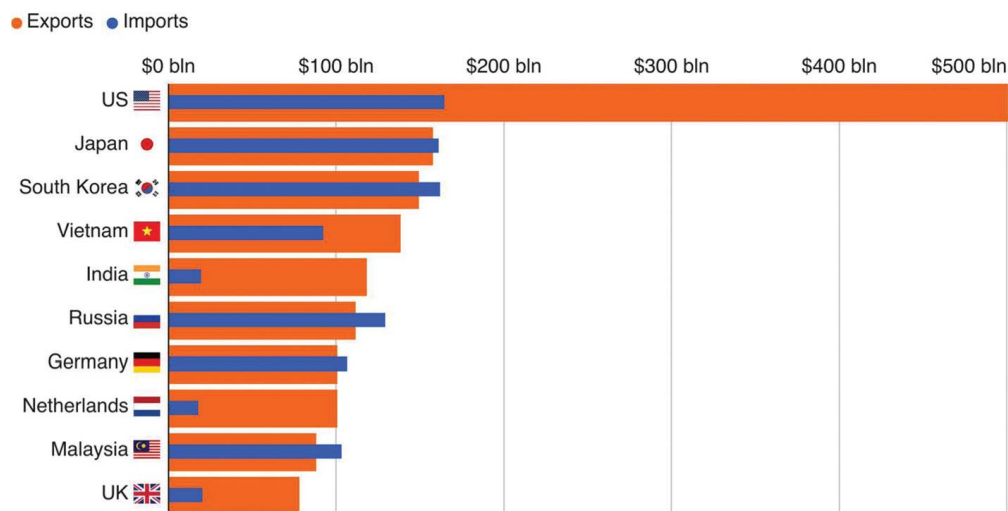
According to Steward Patrick's October 9, 2024 piece—BRICS Expansion, the G20, and the Future of World Order published by the Carnegie Endowment for International Peace—"On its face, BRICS+ is a formidable economic bloc, comprising half of the world's population, 40% of its trade, and 40% of crude oil production and exports. The coalition can use this leverage not only to demand a more equitable international order but also to act on those ambitions,

for instance by establishing a parallel energy trading system, deepening commercial links among members, creating an alternative system of development finance, reducing dollar dependence in foreign exchange transactions, and deepening technology cooperation in fields from artificial intelligence (AI) to outer space." Some of these cooperative ventures are already taking place, obstacles notwithstanding.

China's economy is larger than the rest of the BRICS combined with a substantial influence in the Global South, including the BRICS-Plus Group. US-inspired "decoupling" or "de-risking" regardless, China is the world's largest manufacturer without peers. It is the largest trading partner to 128 countries (compared with 58 for the US). It remains at the center of the global supply and value chain. Even not "Made in China", a vast variety of the world's products have China imbedded in terms of minerals, materials, components, or logistics. Seven of the world's eleven busiest container ports are located in China (Hong Kong included).

China's massive Belt and Road Initiative (BRI) has been instrumental in embedding China in the Global South. Learning from blowbacks during its initially-chequered learning curve, Beijing has now rejiggered the BRI's trajectory, focusing on smaller, greener, and more readily deliverable projects, emphasizing debt-sustainability, openness, ecology, and people's livelihood, partnering more with host country or international stakeholders like the World Bank or

## The US is still China's top foreign market



Note: Annual trade flows as of 2023, excludes Hong Kong

Source: China Customs | H. Lockett | Aug. 27, 2024



five times as much high-impact research as its closest competitor the US.

These observations are perhaps not surprising. They are underpinned by China's vast scientific manpower pool, according to George Town University's Center for Security and Emerging Technology (CSET). By 2025 China's universities will be producing more than 77,000 science, technology, engineering and mathematics (STEM) PhDs per year compared to approximately 40,000 in the US. Excluding international students, Chinese STEM PhD graduates would outnumber their US counterparts by more than three-to-one.

the United Nations Development Program (UNDP). Witness President Xi's keynote speech on the BRI's 10<sup>th</sup> Anniversary at the 3<sup>rd</sup> Belt and Road Forum for International Cooperation held in Beijing on October 17-18, 2023.

Despite unremitting headwinds, according to International Monetary Fund (IMF) 2023 forecasts, China is set to be the top contributor to global growth over the next five years, with a 22% share, bigger than all G-7 countries combined, followed by India, adding about 15% through 2029.

Technologically, Beijing has long been pushing towards greater self-reliance. As I pointed out in my piece dated October 26, 2024 in Rome-based World Geostrategic Insights—"Regardless of the United States' nano semiconductor-chip stranglehold, China is becoming a "scientific superpower", as boldly declared in *The Economist* cover story of June 12, 2024. It now contributes around 40% of the world's AI research papers, compared with some 10% for America and 15% for the European Union and Britain combined. Its Chang'e 6 robotic spacecraft made history by successfully bringing back earth samples from the never-before-

reached far side of the moon. However, China has been lagging far behind the US in science Nobel Laureates. Even if over-hyped, *The Economist* piece tallies with recent findings of the Australian Strategic Policy Institute (ASPI). Surveying some 2.2 million peer-reviewed scientific papers, the Institute finds that China leads in 37 out of 44 critical technologies, often producing more than

Regardless, China's technological advance is fueling American worries about a 'pacing challenge' to its scientific supremacy."

### Stabilizing China's domestic economy

In the face of worsening demographics, persistent youth employment, a massive housing bubble, and an intensify-

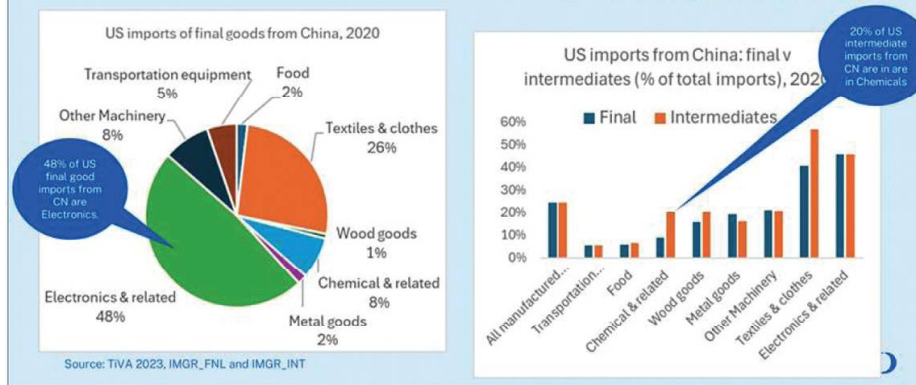
## Factful Friday with Richard Baldwin

20 September 2024

### "Will Trump's tariffs on China harm US manufacturing?"

#### US imports from CN: Final vs intermediate, by sector.

Composition of US final good imports from CN. Final v intermediates by sector (% of total).



ing hostile external environment, Beijing has not been slow with robust responses. Beijing is stabilizing China's massive housing sector through more stringent action against speculators, massive injection of public funds to buy out unsold apartments, and more financial assistance to local governments relying on property as their main source of funds.

Beijing has recently raised its national retirement age gradually, shifting the economy more towards services, technological self-reliance, and turbocharging the potential of its domestic infrastructural connectivity (linking vibrant city-clusters across the country with high-speed-rail network) and its external equivalent (through the transnational BRI), as outlined in my piece "Reading the Tea Leaves of China's Ailing Economy" in the October 2024 issue of this magazine.

Despite looming Trump 2.0 steep tariffs, China has recently set its 2025 growth target at around 5%, relying on expansionary macroeconomic policies including lowered bank reserve requirement ratios, massive government bond issuance to aid struggling banks and local governments, targeted economic stimulus measures to help small and medium-sized enterprises, macroeconomic policies pivoting towards innovation and domestic consumption, and accommodative measures promoting foreign tourism and foreign direct investments in a wider range of sectors including wealth management.

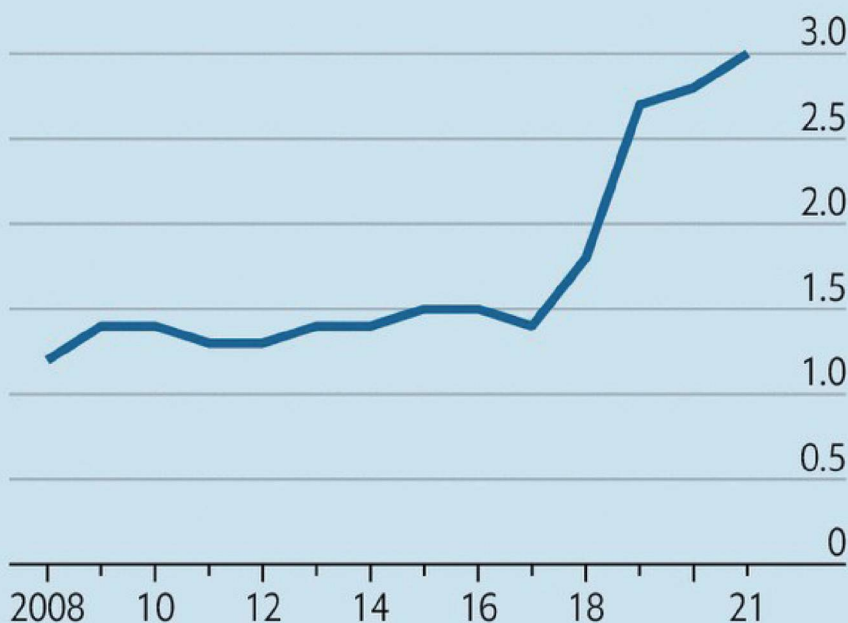
### Expanding China's consuming and services-oriented middle-class

As outlined in my above-mentioned October 2024 piece in this magazine, contrary to common myths, the market plays a sizeable role in China's mixed economy with state capitalism:

"...contrary to common doubts about the market's relative weight in China's state capitalism model, the private sector already contributes 50% of tax revenue, 60% of GDP, 70% of innovative capacity, 80% of urban employment, and 90% of new jobs. (The so-called

## Tariff Man Part One

United States, customs duties as % of total import value



Source: US Department of Commerce

"Private Sector 56789"). The role of the market has been given even more leeway in Beijing's recent Third Plenum.

The market is crucial in growing the share of domestic consumption, driven by China's already sizeable middle class. Based on Pew's income band classification, China's middle class has been among the fastest growing in the world, swelling from 39.1 million people (3.1% of the population) in 2000 to roughly 707 million (50.8% of the population) in 2018.

Beijing is also tapping into the economic potential of its massive industrious "migrant workers" According to a report in the *China Daily* of December 5, 2023, the long-delayed hukou (household registration) system is being further revamped. This would potentially turn some 200 million urban migrants into budding lower-middle-class citizens, if they are provided with subsidized housing, utilizing the nation's numerous newly-completed empty apartments that famously make up China's "ghost towns".

China's services sector accounted for 54.5% of China's GDP by 2020, up from 44.2% a decade earlier, eclipsing the share of industry. This sector's dynamism is closely related to the size of the middle-class cohort.

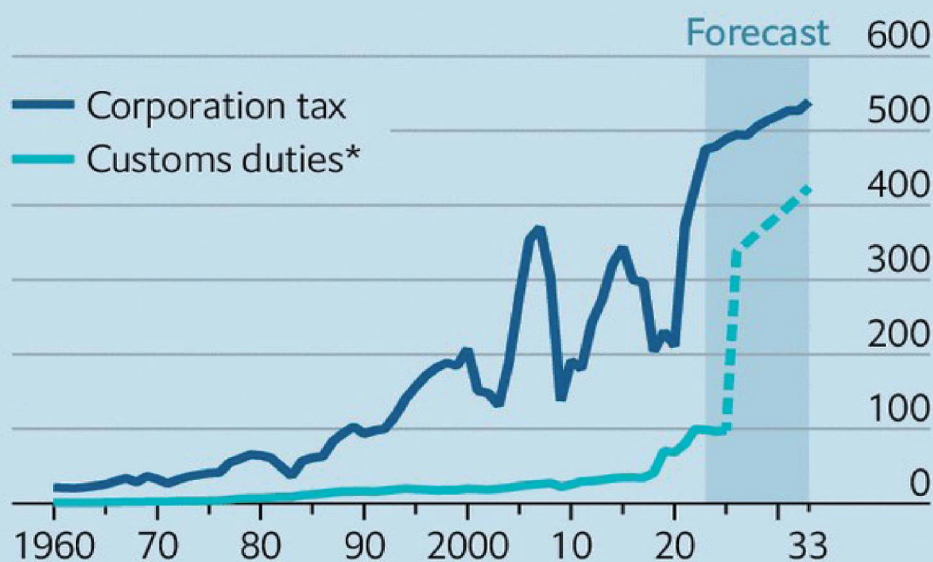
The future combined total of some 900 million middle-class cohorts of service providers and consumers would be well placed to revitalize China's economy, transiting from a per capita GDP of \$12,700 (end 2023) to \$30,000 to \$40,000 by 2035.

### Major Trump.2.0 disruptions to be expected

Judging from Trump's nomination of leading cabinet members, the Trump 2.0 team will be dominated by Make America Great Again (MAGA) hawks, with redoubled measures to contain China, creating an American-centric global supply chain, onshoring key manufacturers including electric vehicles (EVs), exploiting America's massive oil and gas reserves (Trump's call for "drill, baby, drill!") Climate change

## Heavy duty

### United States, selected tax receipts, \$bn



\*Assumes that Trump is elected president and implements a 10% minimum tariff on all imported goods

Sources: White House; CBO; CRFB

regardless, and a reinforced transactional attitude towards America's traditional allies.

Expect an early end to the Ukraine War, which Trump has vouchsafed on many occasions to "end in a day". He thinks that Russia should not have been provoked into the war in the first place by the unbridled expansion of NATO to Russia's immediate borders.

If the Ukraine war ends, it would probably freeze Russia's *de facto*, if not *de jure*, territorial gains in the Donbas Region with critical access to the Black Sea, using a Korean War "armistice formula". If that comes to pass, a still powerful, if weakened, Russia would continue to pose a security threat to European neighbors. Mindful of Trump's lukewarm and transactional attitude towards allies, Europe would likely want to hedge its relationship with China, partly as a counterweight against American coercion, besides wanting to also exploit the vast China market.

In the Middle East, America's whole body politic has long been under the

stranglehold of the financially and politically powerful Jewish Lobby. As Trump has even closer ties with Israel than Biden (Trump's son-in-law being a Jew), expect US redoubled military support for Netanyahu's military campaign against Hamas and the Palestinians, and against Iran's nuclear capabilities and its proxy states, war destructions, and humanitarian crisis notwithstanding.

However, with a historic rapprochement brokered by China between Saudi Arabia and Iran, the Middle East has become more united in its support for the Palestinians' demand for statehood. As of June 2024, Palestine is recognized as a sovereign state by 146 of the 193 member states of the United Nations, over 75% of all UN members, although its full recognition remains chequered and uncertain, due to the Jewish Lobby's over-sized opposition.

### China's response to the next four years of Trump 2.0

As outlined above, in anticipation of a disruptive Trump to the White House,

Beijing has left no stone unturned during the Biden administration to hone China's self-reliance and national resilience.

While China's fundamentals remain strong, more robust immediate relief is called for to help local governments and the flagging economy. At the conclusion of a five-day meeting by China's top legislative body, the Standing Committee of the National People's Congress (NPC) on November 8, a 10 trillion yuan (\$1.4 tn) plan was unveiled, allowing local governments to refinance their debt, and to counter potential Trump 2.0 volatilities.

Geopolitically, China is likely to double down on embracing the Global South and continue to play a more constructive and cooperative role in world affairs, boosting China's role as a responsible stakeholder for more peaceful and mutually beneficial world order, in contrast to a "Might is Right" and "Winner Takes All"

mindset.

Overall, Beijing is taking Trump in his stride. Bilaterally, Beijing is likely to steer a less confrontational relationship with Trump 2.0, exploring more win-win avenues for possible cooperation, as evident from President Xi Jinping's congratulatory message to the President-Elect.

Let's not forget Elon Musk, boss of Tesla, with massive EV production in China. He is named by Trump as the US "efficiency czar". A possible win-win initiative could be Tesla's China operation. While massive, Tesla is losing steam in the China market in 2024, due to fierce local competition not only in price but also in innovative designs and state-of-the-art driving technologies. According to a Bloomberg report, unlike Biden, Trump welcomes China to build cars in the US. A Tesla-China joint venture to build state-of-the-art EVs in the US could well be an ice-breaker for the expected testing US-China relations. ■

Reference # 20M-2024-12-06-01