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Research Global

Trump vs Harris – what it means for US-China relations

- We look at what to expect for US-China relations going forward depending on who wins the US election in November.
- If Kamala Harris wins the White House, we expect to see a continuation of Biden's 'managed competition' strategy. Support for Taiwan would likely continue but without crossing China's red lines.
- In case of a Trump win, we are likely to face a new US-China trade war. This would hurt Chinese growth, create uncertainty for the global economy and be an inflationary impulse for the US. We also expect it to add upward pressure on the USD and weaken the CNY. Trump would likely put China hawks on key foreign policy positions but has given mixed signals on US commitment to defend Taiwan.
- Regardless of who wins, we believe the US-China rivalry will intensify in the years to come with Taiwan and the tech war being the most critical points of tension.
- Businesses should continue to focus on diversification strategies of supply chains and market exposure and have contingency plans for risk scenarios.

China seen as the main foreign policy challenge by both sides

Democrats and Republicans agree on few things, but that China is the primary foreign policy threat is one of them. Both sides believe China has a long term goal of *supplanting the US* as the leading power in the world but while they agree on the threat, they differ on how to deal with it. Their two different strategies can broadly be summed up like this:

1. **Democrats under Biden has followed a strategy of "managed competition"** with a focus on making America stronger technologically, bringing back manufacturing in key areas, and containing China by strengthening security alliances with partners in Europe and Asia and putting tech sanctions on China to stay ahead technologically and militarily. Complete decoupling is not a strategy, though, and the Biden administration has sought cooperation in areas that require global solutions such as climate and AI. They have stressed they don't seek a new cold war. On the Taiwan issue, Democrats have increased support for Taiwan through more arms sales, stronger military presence in Asia and more semi-diplomatic relations with the island. But they formally continued a 'one China' policy and refrained from crossing China's 'red line' by supporting Taiwanese independence.
2. **Republicans generally take a tougher stance and some Republican China hawks have argued that US should acknowledge the US is in a cold war** with China and take a tougher stance. They believe the US should 'play to win' *arguing that the US won the first cold war* not through "managed competition" but through strength, confrontation, tech supremacy, sanctions, and through overwhelming military power requiring a big increase in the defence budget. They want a repeat of this strategy. Former Secretary of State under Trump, Mike Pompeo, has even *argued for ending the One China policy* and support Taiwan independence.

Highlights of US-China actions under Biden presidency

Sep '24	Netherlands export ban of tier-2 chip equipment to China after US pressure
Aug '24	China adds rare earth mineral antimony to export controls
Jun '24	US highlight defence pact with Philippines after clashes in SCS
May '24	US puts 100% tariff on China EV's + other targeted tariffs
Apr '24	US says China enabler of Russia's war machine
Dec '23	China puts export controls on equipment for producing rare earth magnets
Nov '23	Xi-Biden meeting in San Francisco. Military communication resumed
Oct '23	China adds graphite to export control list
Aug '23	China puts rare earth minerals gallium and germanium on export control list
Aug '23	US ban on investments in China tech
Spring '23	More US visits to China
Feb '23	US shoots down alleged Chinese spy balloon
Nov '22	Xi-Biden meeting in Bali
Oct '22	US tough tech sanctions on China
Aug '22	Pelosi visit to Taiwan
Aug '22	US Inflation Reduction Act
Jul '22	US CHIPS Act

Source: Misc. media reports

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Trump to start a new trade war and appoint China hawks

It seems clear that the policy towards China has the biggest potential to change under a Trump compared to a Harris administration. But, Trump is not a traditional Republican and has his own way and views that often differ from the mainstream Republicans. He is normally transactional in his approach and focus on making deals rather than driven by a specific strategy. A key feature of Trump is his unpredictability, which also seems to be a deliberate part of his way to strengthen his negotiation position. But apart from these characteristics, what should we expect from a Trump 2.0 presidency?

First, a clear change would be much more confrontation on trade as seen in his first term. Trump has stated *“tariffs are the greatest thing ever invented”* and has warned he would put 60% tariffs on China. While we doubt tariffs would reach such a high level, we believe he is likely to start a new trade war with China by increasing tariffs on Chinese goods in a meaningful way. The tariffs from his first term was set at 15-25% and affected around 70% of imports from China. A sharp increase on all goods from China could have a more significant effect. The actual impact is highly uncertain and depend on factors such as how big tariff increases would end up being, how many goods are affected, how much will be passed on to consumers and how China would retaliate. Overall, though, we can say that it would create a new blow to China’s economy, provide an inflationary impulse to the US and add a lot of uncertainty to the global economy as it becomes uncertain where a tit-for-tat retaliation spiral ends up. Countries with a large exposure to the Chinese economy, like Germany, would feel a clear negative impact of a trade war.

An interesting aspect of any trade war would be Elon Musk’s role in a Trump administration. With Tesla having around a third of its sales in China, Musk could be a target for Chinese retaliation in an effort to influence the White House if the billionaire is having a key role in Trump’s government as currently suggested.

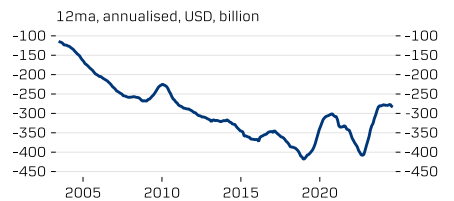
Second, we see Trump be more aggressive in expanding sanctions on tech exports to China. Not least within microchips where China has made some progress over the past four years. As we have seen over the past couple of years (see overview on page 1), China is likely to retaliate with more export controls on rare earth minerals with the risk of triggering a tit-for-tat spiral in this area as well that could put severe damage on both economies.

Third, as in his first term, we would expect to see China hawks on foreign policy posts such as Secretary of State, National Security Adviser, Secretary of Commerce and US Trade Representative.

Fourth, on Taiwan policy Trump’s stance is less clear. In his first term, he drew anger in China by increasing relations with Taiwan and by taking a congratulation call as President-elect from Taiwanese President at the time Tsai Ing-wen. But we did not see the same amount of escalation as when Democrat and Speaker of the House at the time Nancy Pelosi visited Taiwan. In an interview with Bloomberg Business Week in July Trump indicated he has a grudge on Taiwan saying that *“Taiwan took our chip business from us, I mean, how stupid are we? They took all of our chip business.”* He stated Taiwan should pay the US for their defence adding that *“I don’t think we’re any different from an insurance policy. Why? Why are we doing this?”* He also seemed to suggest doubt that the US could win saying *“Taiwan is 9,500 miles away. It’s 68 miles from China”*. He might use Taiwan relations as a bargaining chip in trade negotiations with China, though, and most likely would also increase arms sales to the island as he has indicated he wants Taiwan to take

US-China trade deficit has fallen since first trade war - but still big

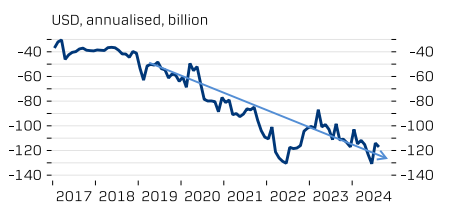
US-China trade balance



Source: Macrobond Financial, Census Bureau

Would Trump come after Vietnam for the sharp rise in the trade deficit?

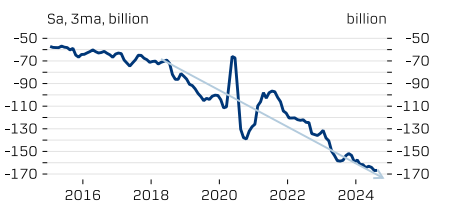
US-Vietnam trade balance



Source: Macrobond Financial, Census Bureau

US trade deficit with Mexico has also increased markedly since 2018

US-Mexico trade balance



Source: Macrobond Financial, Census Bureau

more responsibility for their own security. This would draw China's ire.

Finally, Trump will probably be less united with current US allies as he has lots of grievances still against for example EU in the trade area. He might also draw his attention to the ballooning trade deficits with Vietnam as well as with Mexico, which has taken over some production from China heading to the US market. He has for example stated he would put *200% tariff on car imports from Mexico*. Trump hitting out at allies would send a signal to countries in Asia and elsewhere that the US may be a friend one day but might not be there for you the next day. It keeps many countries in Asia from choosing sides leaning on the US still for security reasons but keeping affairs with China on a stable footing as well to avoid conflict and keep economic relations on track.

The motivation for ramping up tariffs might not be related to just protecting domestic US production and reducing trade deficits, but also the looming increases in budget deficits. *Trump has floated the idea that tariffs are a way of taxing foreign countries instead of Americans.* The need for higher public revenues stems from Trump's plans for easier domestic tax policies, *which have been estimated to lift public deficits by \$7500 billion over 2026-2035*, which on average is 2.1% of annual forecasted GDP. In the 12 months ending August 2024, US imported \$429bn worth of goods and services from China and \$3982bn overall. The current effective trade-weighted tariff rate on US goods imports is 2.0% (according to *USTR*) and 11-12% on imports from China (according to *Fitch estimates*).

In theory, lifting the said rates to 10% and 60% respectively could generate more than \$500bn in additional revenues under a naive assumption that trade volumes would not be affected. In reality, several factors would mitigate the positive impact on public finances. Trade would likely get re-routed around the steepest tariffs on China (which has already been evident in rising trade deficits with Vietnam and Mexico), US domestic manufacturing would take a hit as costs of intermediate goods would rise and China (and other trading partners) would likely retaliate with counter-tariffs. *The Tax Foundation has estimated* that the negative growth impact would mitigate all positive revenue impact from hiking tariffs, but we do not think that is likely to overturn Trump's plans.

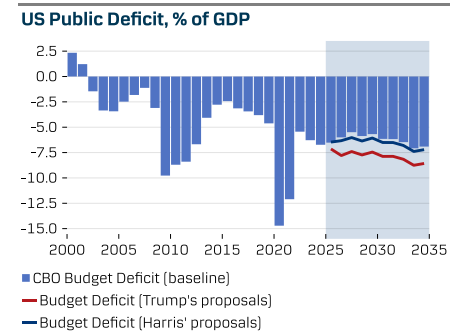
Continuity under Harris

As mentioned, we would expect Kamala Harris to continue the strategy of 'managed competition'. As China continues to make strides within technology, she will likely also expand tech export bans but refrain from adding widespread tariffs on China. There may be some slight adjustments compared to Biden, though. During her four years as Vice President she has travelled a lot in Africa and Asia and she might give a higher priority to catering to the Global South countries. However, it will be difficult to change much in practice such as offering free trade deals or increasing investments significantly as she would continuously have to consider Republican attacks of not putting America first and protecting US jobs. China is set to continue to have the upper hand here coming with bigger investments and opening up for trade with the Global South. They also share a common desire for more influence in global affairs and in institutions like UN, IMF and the World Bank.

Implications for the dollar, yuan and businesses

In case of a Trump win, we expect the dollar to gain and the yuan to weaken in anticipation of a trade war, and similar to what we saw in the trade war in 2018/19. A Harris win would have the opposite impact in the short term, as the FX market currently should price around 50% probability of a Trump victory, as suggested by polls.

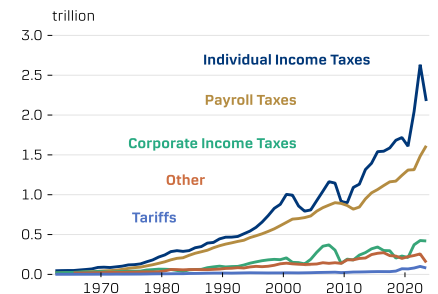
Trump's planned cuts to US domestic taxes are set to lift budget deficits even higher



Source: Macrobond Financial, U. S. Congressional Budget Office. PWBM

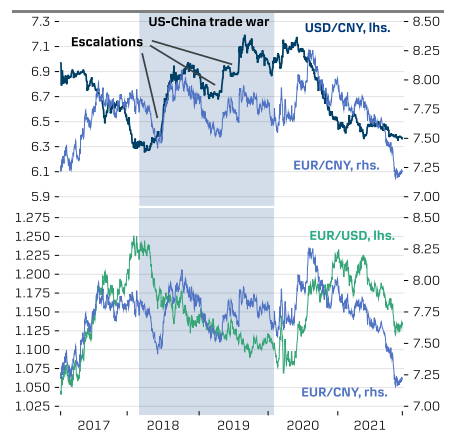
Tariffs still play a very minor role in US public finances. Replacing income taxes with tariffs is practically impossible due to the significantly smaller tax base.

Sources of US public revenues



Source: Macrobond Financial, U. S. Congressional Budget Office

USD strengthened, CNY weakened during US-China trade war in 2018/19



Source: Macrobond Financial, Danske Bank

A Trump win would cause renewed uncertainty for global multinational companies and make sourcing in China for the US market even more expensive due to the higher tariffs. And regardless of who wins, we expect to continue to see US-China rivalry continue for many years to come with clear risks of tensions spilling into military conflict around Taiwan or the South China Sea. Hence, **diversifying supply lines and reduce dependence on China should continue to be a consideration**. Having contingency plans for risk scenarios like a Taiwan war or military escalation in the South China Sea should also have a strong focus.

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