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RETURN OF TRUMP AND IMPLICATIONS FOR CHINA

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Introduction

Modern political rivalries have rarely shaped global geopolitics as profoundly as the USA-PRC (United States of America-People's Republic of China) relationship, reaching its lowest point since its rapprochement in the 1970s. Experts argue that in the wake of the 2008 financial crisis, the USA and PRC launched 'restorative' political projects that are mutually exclusive and animate contemporary geopolitics. Make America Great Again (MAGA) in the USA and the China Dream in the PRC sought to reclaim a sense of national strength and identity by looking to the past. However, this also intensified competition between the two powers, as both framed their national resurgence in opposition to the other. This paper examines the possible consequences of Trump's return on USA-PRC relations, with particular attention paid to economic policies, geopolitical tactics, and their broader implications for global stability.¹

Trump's First Term

Comprehending Donald Trump's first term as president, he loved using tariffs on foreign goods to protect American industries and address trade imbalances. Trump and his advisers view tariffs as a strategic tool to generate federal revenue. Trump has often argued that imposing tariffs on imports can encourage consumers to buy domestic products, as the price of foreign goods rises due to the added costs of tariffs.² The key motivation for imposing tariffs on imported goods is to protect US firms from foreign competition. In the analysis, New York Fed economists wrote, "Most firms suffered large valuation losses on tariff-announcement days. We also document that these financial losses translated into future profits, employment, sales, and labour productivity reductions." The New York Fed's research shows that while Trump and his advisers view tariffs as a revenue-raising tool, their impact on firms, especially those exposed to China, has been largely

¹ He's a Factory Owner and Friends With Trump. That Makes Tariffs Personal | WSJ (Jan 4, 2025). <https://www.tandfonline.com/doi/full/10.1080/14650045.2023.2253432#abstract>

² He's a factory owner and is friends with Trump. That Makes Tariffs Personal | WSJ (Jan 4, 2025). <https://www.wsj.com/business/hes-a-factory-owner-and-friends-with-trump-that-makes-tariffs-personal-7da3638f>

negative, with broad losses in expected cash flows and tangible outcomes due to complex global supply chains and retaliatory measures.³

China with USA

China's trade surpluses with the US have consistently turned from double to triple figures since China joined the World Trade Organisation in 2001.⁴ While China has a strategy of limiting foreign access to many of its internal sectors, the United States actively participates in international affairs and frequently asserts its influence in many regions. The US is subject to similar restrictions. PRC's vigorous assertion of national sovereignty in ways that contradict the US's influence and global governance principles is one of the key reasons why the United States, a self-declared defender of democratic ideals, is still in conflict with the Chinese Communist Party. This ongoing tension highlights the struggle between economic power and political ideology, with both nations asserting their influence in global affairs. China's continued economic rise challenges the US's traditional leadership role, fuelling further discord between the two powers. We also have to be clear that China has a selective consciousness of sovereignty regarding developed countries.

China vs USA

During his 2024 election campaign, Donald Trump referred to tariffs as "the world's most beautiful word in the dictionary." The US's three major trading partners are Canada, Mexico, and China. The story of China is different because it is not the US's neighbour, and China does not have a federal government. China is no stranger to tariff increases on its exports. While the Biden administration, in addition to announcing 100% tariffs on Chinese electric vehicles, China retaliated by imposing tariffs on US goods like soybeans, pork, and other products. During his first term, Trump imposed tariffs ranging up to 25% since 2018 on Chinese goods worth \$360 billion.

³ Tariffs under first Trump term hurt US firms, NY Fed Analysis says | Reuters (Dec 5, 2024).

<https://www.reuters.com/markets/us/tariffs-under-first-trump-term-hurt-us-firms-ny-fed-analysis-says-2024-12-05/>

⁴ Trump's trade threat runs into inconvenient dollar truth | Reuters, (Dec 4, 2024).

<https://www.reuters.com/markets/us/trumps-trade-threat-runs-into-inconvenient-dollar-truth-mcgeever-mcgeever-2024-12-03/>

The Biden administration continued tariffs on China. Trump has proposed between 60% and 100% tariffs on Chinese goods.⁵

China's Current Situation

China is already facing a series of challenges, from rising unemployment to weak domestic spending, heavy local debt, a struggling real estate market, and sluggish manufacturing growth. The unemployment rate is approximately 5.1%, reflecting ongoing labour market pressures. The retail sales growth has been weak, with a notable slowdown to 3% year-on-year in November 2024, down from 4.8% in October. The real estate sector is still struggling, with property investments sharply declining and the market burdened by overcapacity and a large amount of unsold housing inventory. The global slowdown exacerbates China's economic challenges as demand for its exports weakens, further dampening growth prospects. Analysts are predicting continued pressure on the economy, with some forecasting a prolonged recovery period. Analysts believe the sector is unlikely to recover to its previous peak performance.⁶

Sharpening the Axe

China's immediate response to the tariff hike has been mild and defensive. Economists widely forecast that tariffs of this magnitude would increase prices paid by US shoppers since importers typically pass along a share of the cost of those higher taxes to consumers. Also, many companies will add the full cost of tariffs to the consumer's budget.^{7 8} While China has historically employed strategies such as currency depreciation and export tax rebates to mitigate the impact of US tariffs, analysts suggest that these measures may be less effective under the current circumstances. As the yuan weakens, China faces a difficult balance between stimulating exports without capital

⁵ Tracking the economic impact of the Trump tariffs | Tax Foundation (June 26, 2024). <https://taxfoundation.org/research/all/federal/tariffs/>

⁶ China retail sales slow as consumers hold back, while home prices fall | AP News (Dec 16, 2024). <https://apnews.com/article/china-economy-trump-tariffs-057555a36a1616e3e819d51c9a2a0383>

⁷ Would Donald Trump's tariffs hurt us consumers? | BBC News (Nov 26, 2024). <https://www.bbc.com/news/articles/c20myx1erl6o>

⁸ You will pay for Donald Trump's tariffs. here's proof | CNN Business (Nov 6, 2024). <https://edition.cnn.com/2024/11/04/business/tariffs-donald-trump-prices/index.html>

outflows that could further destabilise the economy. Moreover, the ongoing pressures on the stock market indicate that investor confidence remains fragile, complicating China's ability to use traditional tools for economic support.⁹ Experts say that before China tries to navigate the external economic environment, it needs to solve its internal problems.

Return of Trump

The US stock market welcomed Donald Trump's victory in the 2024 presidential election, but challenges could arise if the president-elect follows through on his tariff threats. On November 25, Trump declared that he would levy 25% taxes on goods from Mexico and Canada and another 10% tariff from China as his first step after becoming the President in January, in addition to the 60% tariffs on all goods from China, which Trump mentioned during his election campaign.¹⁰ During 2018 and 2019, President Trump's announcement and implementation of tariffs led to increased volatility in the stock market. Sectors, heavily reliant on imports, such as automotive and technology, experienced reduced profit margins and declining stock values due to higher input costs. However, protected industries, like steel and aluminium, saw gains as tariffs shielded them from foreign competition. A Federal Reserve study confirmed that tariffs led to relative reductions in employment and higher costs for manufacturing industries exposed to tariff increases.¹¹

The U.S. President Donald Trump has announced 10% tariffs on all Chinese imports, prompting Beijing to respond with retaliatory tariffs and to file a WTO dispute against Washington in what could be an early test of Trump's stance towards the institution. Beijing has accused Washington of breaking rules, while Washington says Beijing does not deserve its "developing country" status, which entitles it to special treatment under WTO rules. As the Trump administration has announced plans to withdraw or disengage from other global organisations, the WTO has not yet

⁹ China hurries to shore up sliding yuan and stock markets | Reuters (Jan 6, 2025). <https://www.reuters.com/markets/asia/china-scrambles-shore-up-sliding-yuan-stock-markets-2025-01-06/>

¹⁰ Trump says he will announce 25% steel and aluminum tariffs Monday, and more import duties are coming | AP news (Feb 10, 2025).

<https://apnews.com/article/trump-steel-aluminum-tariffs-import-duties-74d7bfde0da59e111a45e772d199f2b2>

¹¹ Disentangling the Effects of the 2018-2019 Tariffs on a Globally Connected U.S. Manufacturing Sector | (Dec 23, 2019).

<https://www.federalreserve.gov/econres/feds/files/2019086pap.pdf>

been a significant focus for the White House. However, incoming US Trade Representative Jamieson Greer has called the WTO "deeply flawed." Investors know these uncertainties will require caution, as trade decisions and their macroeconomic effects could significantly influence market dynamics.¹²

China is China

From Trump's first tenure, China learnt that it could not match the US economy tit-for-tat regarding tariffs and quickly found other ways to inflict pain. While Trump's tariff policy's primary role is to reduce the trade deficit and curb China's economic influence, it unintentionally diverted and prompted China to innovate and adapt its strategies. Through alternative markets and regulatory frameworks, China managed to dilute some of the adverse effects of US tariffs while continuing to expand its global economic footprint. China, Africa's largest trading partner (\$282 billion), organised the Forum this September on China-Africa Cooperation by inviting leaders from 51 countries and signed deals to export EVs and solar panels to Africa. While China is pitching Africa against the US, it is aware that 22 African countries are in debt to China.¹³ China's trade with South America increased to \$489 billion, pushing American officials back into defensive mode.¹⁴ China is likely to diversify trade towards the Global South. Expecting a hardline posture from Trump, China is making tactical adjustments with major Asian powers, specifically by announcing a much-wanted "fresh start" with Japan towards a detente with India.¹⁴ President Xi Jinping from China issued "red lines" to President Joe Biden on the sidelines of the 31st Asia-Pacific Economic Cooperation (APEC) meeting in Lima this November, emphasising China's development path.¹⁴

¹² US-China trade war: Beijing sounds 'global recession' alarm, Washington hits back with 'predatory' economy jibe | The Economic Times (Feb 20, 2025).

<https://www.msn.com/en-in/news/world/us-china-trade-war-beijing-sounds-global-recession-alarm-washington-hits-back-with-predatory-economy-jibe/ar-AA1zn9Na>

¹³ Debt woes and funding needs in focus as China hosts African leaders | Reuters (Sep 4, 2024). <https://www.reuters.com/markets/debt-woes-funding-needs-focus-china-hosts-african-leaders-2024-09-04/>

¹⁴ Xi has a plan for retaliating against Trump's Gamesmanship | FT (Jan 5, 2025).

<https://www.ft.com/content/ca79e423-7c0f-4883-a295-6fe1c73a2819>

Predictions

Since the initial trade war, obstacles to China's development have been a concern for Beijing, so it started introducing new legislation such as the "unreliable entity list" and the "anti-foreign sanctions law" to target companies or individuals that cross their way. As China's role in the global value chain continues to strengthen, the significant need for collaboration between multinational and Chinese companies becomes increasingly evident. This cooperation facilitates mutual benefits and shared growth for both parties and is a crucial driver for the deep integration and optimisation of global industrial and supply chains. China's reactions to the trade war with the US reflect a strategic turn toward simultaneous protection of its economic interests while strengthening its position in global trade. Every developed country that trades with the US is clear that if the US continues to pursue this anti-cooperation stance, its domestic companies will eventually miss precious market opportunities and collaborative ventures, putting them at a disadvantage in the global economic arena. Therefore, adopting a pragmatic approach and actively seeking avenues for cooperation has become a necessity for both countries. Of course, cooperation does not mean the absence of competition.

Importance of Cooperation

The United States persists in taking an anti-cooperation approach toward China, putting aside its businesses as a matter of principle. One of the world's largest consumer markets is ignored, and opportunities for innovative, collaborative ventures are deliberately passed over. Billions of dollars in trade are considered the cost of being strategically obstinate. What is now a mere footnote of fair competition between nations once was the hallmark of global trade. Encouraging innovation in partnership is replaced by penalisation. American companies and investments reliant on Chinese manufacturing are ignored. Economic complementarity is ignored, interdependence being an inconvenient truth. Where other nations would welcome China's market for growth and innovation, in the United States, that has come to be merely a footnote of rivalry, a nation that believes in free markets and open trade approaches isolationism. Opportunity for mutual benefit is left out for adversary tactics. Pragmatism calls for cooperation toward shared prosperity but remains solidly on containment. Growth and innovation are secondary in a strategy likely to diminish America's

importance to the world economy. However, containment and sanction cannot be the tools for competition. Competition needs to be fair, healthy, and conducive to innovation.