

PART TWO. IS PRESIDENT DONALD TRUMP A BLESSING OR A CURSE FOR CHINA?

This is Part Two of a two part series that examines what the Trump Presidency means for China.

Here in Part Two, we address the global security and trade implications and assess the overall implications of the Trump presidency for China. The U.S. is focussed on getting a better deal – but as the recent visit of President Xi Jinping showed – this will not be easy and concessions will be hard won.

In Part One, we addressed the overall Sino:American geopolitical issues, China’s role in the world and what President Trump means for China’s regional influence and for China’s culture.

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The need to combat ISIS and global terrorism is a core priority for America who is also deeply concerned about North Korea.

President Trump is promoting the potential benefit of increased collaboration with Russia in combatting ISIS. This will present some challenges to China.

America has also long held serious security concerns around North Korea and its nuclear programme.

China is seen as being well positioned to influence and contain this threat, but many in America remain to be convinced that China is doing all that it can to help. Trump has already flagged that he has lifted expectations upon Beijing to be more engaged to protect the region.

China’s core priority is the reunification and restoration to China of its former territories. Foremost amongst these concerns are China’s desire to ultimately reunify Taiwan and to claim sovereignty of a wide area of the South China Seas.

There is probably no foreign policy more important to China than that of reunification with the province of Taiwan, which fell under the control of China’s former Nationalist Government in 1949 after it was defeated on the Chinese mainland by Mao’s Red Army. However, China has been very strategic and patient and has been prepared to play a long game with regard to Taiwan.

There were some initial fears when President-Elect Trump accepted a congratulatory phone call from Taiwan’s President Tsai Ing-wen. The world media portrayed this as incendiary and indicative of a potential change in US’ longstanding acceptance of the “One China” principle. Chinese authorities call the policy “*the political foundation for China-US relations*”.

However, even though this incident was certain to have angered Beijing; the Chinese Government adopted a very measured and restrained response with Foreign Minister Wang Yi calling the contact “*just a small trick by Taiwan*”. This approach was justified by Trump’s subsequent acceptance of the “One China” policy when he eventually spoke to President Xi Jinping.

The mainstream media chose to report this as a loss of face rather than as evidence that Trump can adopt the behaviour of a responsible statesman. Fortunately, the Taiwan issue now appears to have blown over.

Tensions over the South China Sea are likely to be more enduring. US Secretary of State Tillerson has in the past called China’s actions in the South China Sea “*illegal*” and has promoted the prospect of stronger intervention, even advocating a US naval blockade of artificial Chinese islands in the South China Sea. However, Secretary of Defense James Mattis, during a recent trip to Japan, expressed that there is no need for the US military to “*take drastic*” moves in the South China Sea.

A blockade seems increasingly unlikely, but this issue is still a concern for Beijing, who wait to see if it will escalate. Not yet a curse, but it could be.

China has also long been angered by allegations from the US and Western nations regarding human rights issues that China sees as both unwelcome and hypocritical.

These issues appear to be far less of a priority for Trump and this historical flashpoint in Sino-American relations appears likely to present far less issues under Trump than in the past.

IS A TRADE WAR INEVITABLE?

From a trade perspective, President Trump is likely to be more of a curse than a blessing. But this is likely to fall well short of the type of nightmare scenario that many commentators predicted based on Trump's early rhetoric.

A recalibration of trade arrangements between the US and China is far more likely than an all-out trade war. As a successful businessman, he will appreciate that a trade war will hurt American exporters and devastate both Chinese student numbers into American schools and universities and Chinese tourist dollars across the country.

Media reporting seeks to portray Trump as being a catastrophe for the US, but this posturing is in very stark contrast to the reaction of the US stock markets and US investors, which are endorsing Trump and pushing the market to record highs.

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In assessing the aggressive statements made by Trump regarding China on the campaign trail, we need to remember, of course, that no American politician praises China.

Last year, Hillary Clinton, Bernie Sanders and Ted Cruz all joined Trump in serious China bashing.

Here in Australia, we need to remember that there is no more important relationship for Australia and countless other countries than the relationship between the United States and China.

I recall, Paul Kelly, editor of The Australian, speaking on this relationship and its implications for Australia at a forum in Perth 15 years ago, when he paraphrased a Korean saying – *“When whales fight, prawns get crushed in the wash”*.

Trump's consistent statements and actions define him as a hawk on trade. He has appointed trade hawks to the National Trade Council and the Office of US Trade Representative. Trade hardliners sit in Trump's inner circle of trusted advisers.

However, first and foremost, President Trump is a businessman. A business man with a chequered, but ultimately successful history.

He understands that the Chinese and American economies have a lot to offer each other. His approach is likely to be highly transactional.

He has also made several strategic senior appointments, with ex Exxon-Mobil head Rex Tillerson as a very experienced, business oriented appointee as Secretary of State.

His emerging role suggests that he could be a moderating influence amongst the hawks within the White House.

President Trump has clearly decided that the trade relationship under previous American administrations has unduly favoured China.

Now President Trump wants a fairer deal for America. He wants a better deal for America. Given the phenomenal size of the trade imbalance between China and America, this is a legitimate position for a US President to adopt.

Leading into the election, Trump adopted a strong anti-China posture that served him well electorally. He promised to label China a currency manipulator from Day One. He promised tariffs of 45% on Chinese goods.

Trump, of course, needs to play to the gallery, but the businessman in him will be well aware that trying to control China economically and militarily would likely backfire, given that China has serious financial weapons at its disposal, including trillions of dollars of U.S. debt.

It is instructive that, whilst he has surprised many and has kept many of his campaign trail Day One promises, President Trump has not declared China to be a currency manipulator.

This appears to be a tactical decision and a wise one at that. It shows that not all President Trump's rhetoric will result in policy changes.

Economists generally agree that China no longer artificially weakens its currency; in fact, it has spent billions of its foreign currency reserves in strengthening its currency.

The US Treasury has set down a list of three criteria for a country to be classified as a currency manipulator:

1. Having a significant bilateral trade surplus
2. Having a material current account surplus
3. Engaging in persistent one-sided intervention in foreign exchange markets.

It is highly relevant that China was assessed by the US Treasury, in its report to the US Congress in October 2016, as meeting only the first condition. In contrast, Japan, Germany, South Korea and Taiwan each meet two of these conditions.

So, in what areas will Trump seek a better deal for Americans in its trade dealings with China?

Trump will likely target improvements and concessions from China at the margin of the trade relationship. Such gains can be both significant and valuable to America given the massive scale of the mutual trade relationship.

There is also a likelihood that he will be more aggressive in asserting US rights through anti-dumping actions.



Australians all have a huge incentive to help to build little bridges that promote understanding between our major trade partner and our largest investor

President Trump is a deal maker and he will seek to do deals that benefit America. Deals that benefit American business and American workers.

His early meeting with legendary Chinese businessman and head of Alibaba, Jack Ma, shows that he sees opportunity for US businesses to leverage Chinese online platforms to boost sales.

This, of course, boosts jobs and serves his domestic support base extremely well.

Donald Trump is a builder. His instinct is to build. His instinct is to replace and upgrade failing American infrastructure.

If the US is facing economic and fiscal challenges it will not be able to roll out massive infrastructure spending. That needs a strong economic partner – and China is Trump's best option to provide this support. Of course China leads the way globally in

building infrastructure be that road, rail, ports or fibre optic cable.

If Trump can overcome hawkish geopolitical sentiments, China and the US could both benefit from an infrastructure partnership. China and the US should collaborate more, not less.

Progress on reciprocity, to provide improved access for US companies to the Chinese market, is also both a realistic target and one that would be well endorsed by American business. A Sino-American bilateral trade agreement could well become a major, new initiative.

Of course there remains a residual risk that Trump turns protectionist, in a move that would be bad for everyone. In any event, in order to counter-balance the potential downside risk in exports linked to this risk, China will begin to implement more expansionary monetary and fiscal policies.

CONCLUSION – BLESSING OR CURSE?

Tension in the US - China relationship is inevitable. Such tension should not be feared in such a complex and multi-faceted relationship.

China will no doubt find Trump to be challenging. He brings greater uncertainty to the relationship and to global markets and the Chinese Government is one that prefers predictability and stability. Trump is the antithesis of stability.

Whilst President Trump will struggle to fundamentally alter the structure of Sino-American trade; trade concessions that favour America appear to be likely.

The journey for China with President Trump will be bumpy. There will be both gains and losses, but, at this early stage, on balance, President Trump appears likely to be more of a blessing to China than a curse.

Importantly for us here in Australia, if there was to be a major conflict between China and the US, Australia will certainly suffer.



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So we, as Australians, all have a huge incentive to help to build little bridges that promote understanding between our major trade partner and our largest investor.

We should not simply buy into the media rhetoric that promotes division and conflict, rather we should proactively nurture collaboration.

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