

China Economy

What might Trump 2.0 mean for China

A Trump 2.0 era might mean more global trade tensions and less US commitment to the international order. Global economy will see more instability and divergence, with higher inflation and a stronger dollar in the US yet deflation pressure and weak currencies in major export countries especially those with a high trade surplus with the US. A possible China-US trade war 2.0 would lower China's annual GDP growth by 0.95-1.55ppt per our estimate, with additional deflation pressure. The trade tensions will accelerate Chinese enterprises' outward expansion to circumvent tariffs. Trump's "America First" doctrine with protectionism, nationalism and isolationism will undermine the US credibility and its partnerships globally, creating a good opportunity for China to enhance trade and investment ties with other countries. In response to Trump's trade war, China might retaliate with tariffs on targeted US goods and further loosen policies to boost domestic demand. The MoF may raise broad fiscal deficit, the housing ministry may further loosen property policies and the PBOC may launch additional cuts in RRR, LPRs and deposit rates.

■ **Higher US inflation and a stronger US dollar.** For the US economy, Trump 2.0 will bring an overheating effect in the short term and stagflation effect in the long term, pointing to a stronger US dollar and higher treasury yields. Trump 2.0 means higher inflation for the US as his large tax cuts will boost domestic demand and his aggressive tariffs and immigration policy may increase product prices and labor cost. In addition, Trump's discretion over monetary policy might erode the Fed's credibility, heighten the risk of runaway inflation and undermine the greenback's status as the dominant international currency. Trump 2.0 is positive for economic growth in the short term as the supportive effect of his tax cuts and deregulation policies should outweigh the negative impact of his tariffs and immigration policy within the next two years. In the long term, however, the balance of the two sides may change. The effect of tax cuts will diminish while the aggressive tariffs will hurt economic growth by generating inefficiency and uncertainty and the immigration policy will bring negative labor supply shock. A [recent study](#) by the Peterson Institute for International Economics showed that a large negative labor supply shock would increase inflation by 1.5ppts and shrink GDP by over 3ppts within three years.

■ **More instability and divergence in global economy.** With the "America First" doctrine, Trump is willing to destroy the current global trade, investment and supply chain networks in pursuit of trade balance and manufacturing revitalization in the US. His aggressive tariffs of 20% on all US imports and 60% on Chinese goods might cause a global trade war and endanger global economic stability. IMF estimates in its [latest report](#) that a trade war with Trump's tariffs and other countries' moderate tit-for-tat responses would wipe 0.8ppts and 1.3ppts respectively from world GDP growth in 2025 and 2026. Global economy will see more divergence as foreign trade and the manufacturing sector should be more vulnerable than the service sector. Trump focuses on trade imbalance and defence burden sharing in managing the US relations with other countries. China, Mexico, Canada, Germany and South Korea might be major targets in his trade protectionist moves. Those economies may face economic slowdown and deflationary pressure due to their high dependence on foreign trade and the manufacturing sector for growth. Trump's policies will cause a severe deglobalisation effect in global economy, which is negative for offshore trade and investment hubs like Hong Kong, Singapore, and Luxembourg. After Trump's 2017 tax law, the US multinational companies repatriated over US\$1tn overseas profits back to the US, followed by an increase in share buybacks, while most offshore hubs experienced sharp capital outflows.

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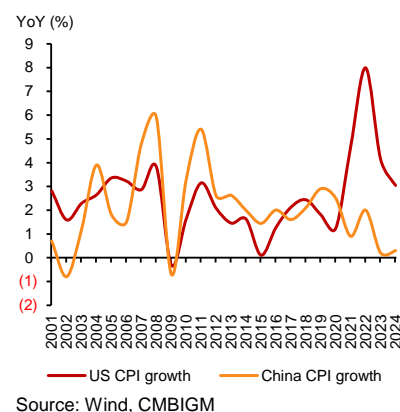
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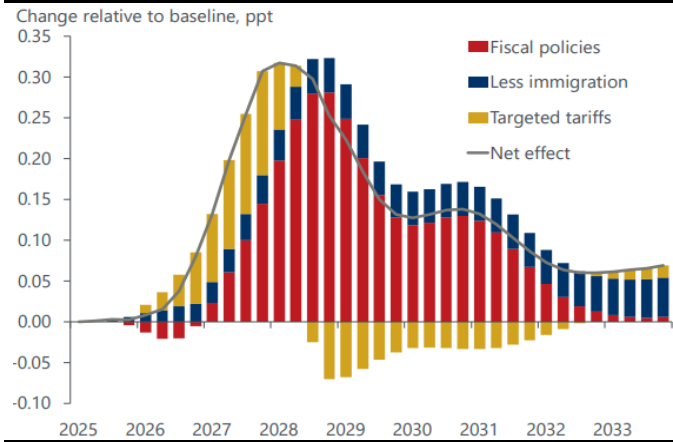
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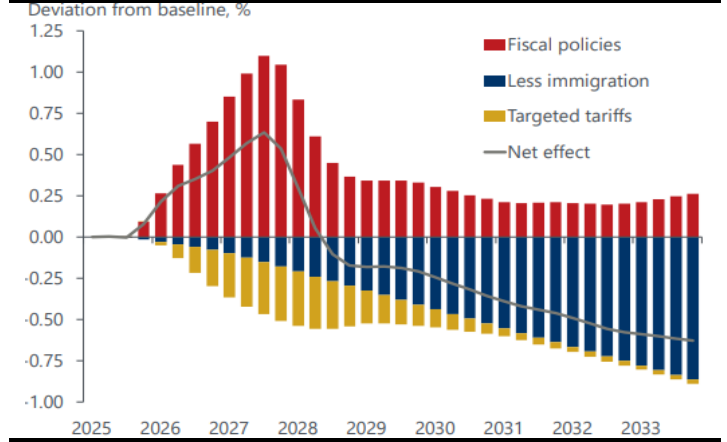


- **China-US trade war 2.0.** Trump may launch the trade war 2.0 against China and initiate to revoke China's permanent normal trade relations status. Actual tariff rates might be lower than 60% as Trump often uses utmost pressure as leverage for future bargaining. In our optimistic scenario, there would be no trade war. In our base scenario (30% tariffs on China, 10% tariffs on other partners and others levying 5% retaliatory tariffs on the US), the trade war would reduce the US imports, China's exports and China's GDP respectively by 8.2%, 6.3% and 1.9% within the next two years. In our pessimistic scenario (60% tariffs on China, 20% tariffs on other partners and others levying 10% retaliatory tariffs on the US), the trade war is expected to reduce US imports, China's exports and China's GDP by 14.1%, 10.5% and 3.1% respectively within the next two years. The trade war will hurt China economy through undermining foreign trade, FDI, capex and confidence. The China-US trade war 2.0 may accelerate Chinese enterprises' outward expansion to circumvent tariffs as China's ODI to ASEAN, Mexico and Hungary might continue to increase.
- **The Taiwan question.** Trump is sceptical about the benefits of supporting Chinese Taipei. However, he may use it as leverage to make a gain from both sides of the Taiwan Strait. He might ask Taiwan to raise its defence budget to purchase more weapons from the US while asking Beijing to offer incentives on trade in exchange for the US reducing support for Taiwan. After he became the US president in 2016, Trump broke with past precedents by taking a congratulatory phone call from the then Taiwan leader Tsai Ing-wen. A few days later, Trump explained that he could use Taiwan as leverage against the Chinese mainland to secure concessions on trade and North Korea. Bob Woodward, an American journalist, wrote in his book *Fear: Trump in the White House* that Trump once asked his national security team in a meeting in 2018 what did the US get by maintaining a massive military presence on the Korean Peninsula and protecting Taiwan. In [an interview](#) with Bloomberg Businessweek published on 16 July 2024, Trump said Taiwan should pay the US for defence.
- **Good opportunity for China to enhance ties with other countries.** Trump adopts the "America First" doctrine with a weaker commitment to the US ally system. He focuses on trade imbalance and defence burden sharing in foreign policy. In his view, a trade partner with a large surplus is stealing money and job opportunities from the US while an ally with small defence spending is a freeloader for the US. Trump openly criticized the EU, Germany and South Korea in his first term. His tariff plan in the second-term campaign targets not only China but also some US allies. Trump's foreign policy will seriously undermine US credibility and its partnerships globally. This creates a good opportunity for China to improve ties with the rest of the world. Trump places a relatively low priority on Southeast Asia and Latin America while China could continue to enhance trade and investment ties with those regions. The China-US trade war 2.0 will continue to push China for export diversification with an emphasis on Europe and emerging markets.
- **China's possible policy responses.** If Trump launches a trade war 2.0 against China, the Chinese policymakers will retaliate with tariffs on US goods and further loosen policies to boost domestic demand. The MoF might raise broad deficit by another 2-3 trillion yuan with more emphasis on supporting households and consumption. The housing ministry and municipal governments may further loosen property policies. The PBOC may continue to loosen liquidity and credit supply with additional cuts in RRR by 0.5-1ppts and in LPRs and deposit rates by 20-40bps. The central bank could reduce support for RMB to let the currency depreciate more against the US dollar to partially offset the negative impact of Trump's tariffs. In 2018-2019, USD/RMB rose by 7% cumulatively as the US trade-weighted average tariff rate on imports from China rose from 2.7% in 2017 to 9.1% in 2019. Despite a possible higher tariff rate this time, market response might be much more moderate in the trade war 2.0 as the US Fed will continue to cut interest rates, China may expand its fiscal stimulus and Trump is more predictable

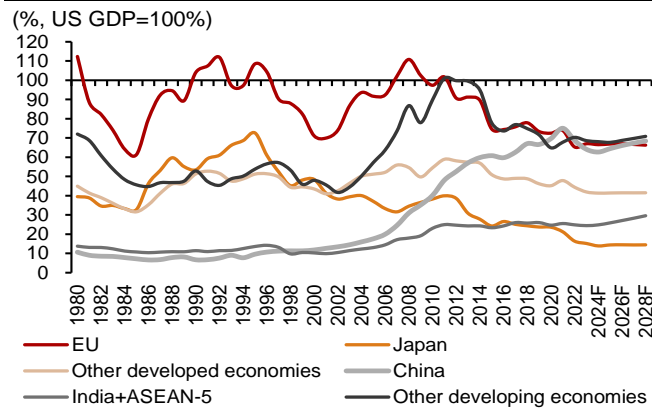
for the market in his second term. USD/RMB might rise by 4%-6% to 7.42-7.56 in our base scenario (30% tariff on China) and by 8%-10% to 7.7-7.84 in our pessimistic scenario (60% tariff on China) at end-2025.

Figure 1: Policy impact on US core PCE inflation in the limited-blown Trump scenario¹


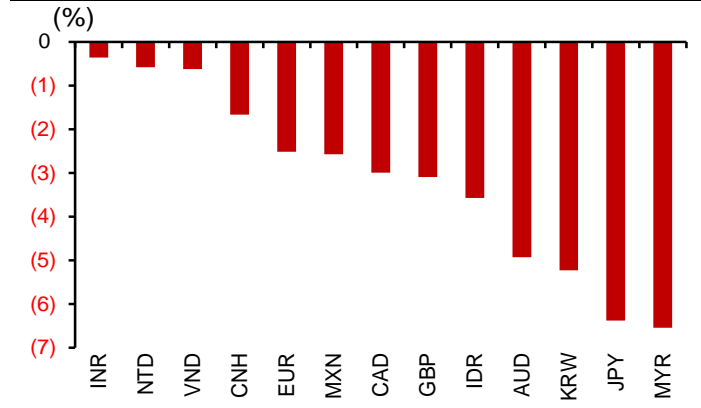
Source: Oxford Economics, CMBIGM

Figure 2: Policy impact on US GDP growth in the limited-blown Trump scenario


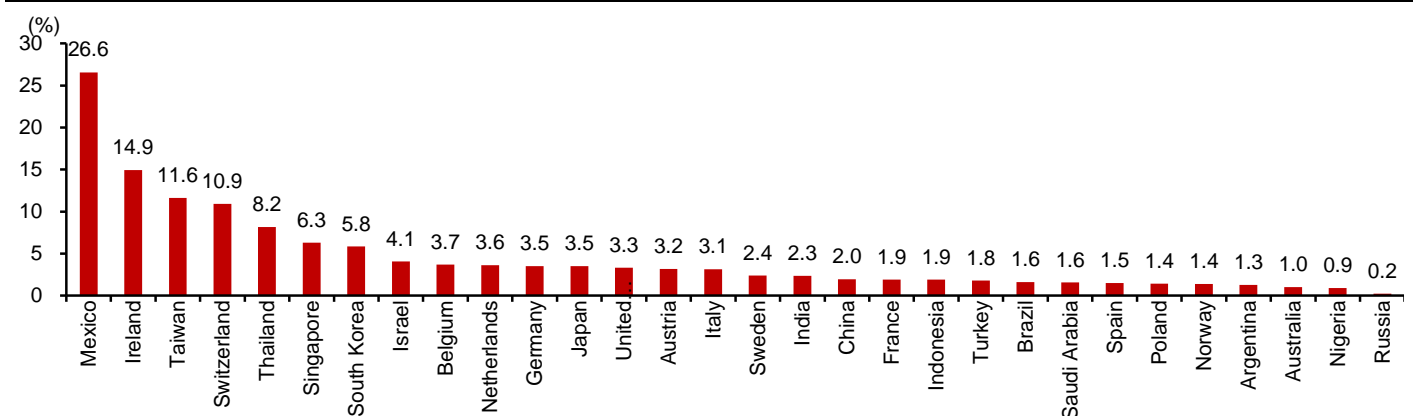
Source: Oxford Economics, CMBIGM

Figure 3: Nominal GDP as % of US Nominal GDP


Source: Wind, CMBIGM

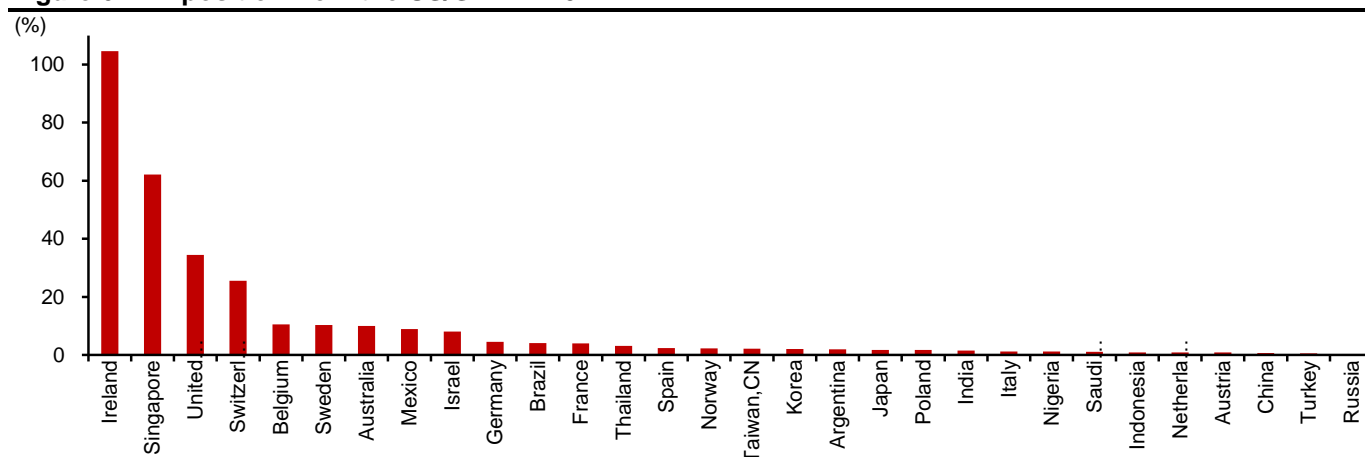
Figure 4: Depreciation against US dollar in Oct. 2024


Source: Wind, CMBIGM

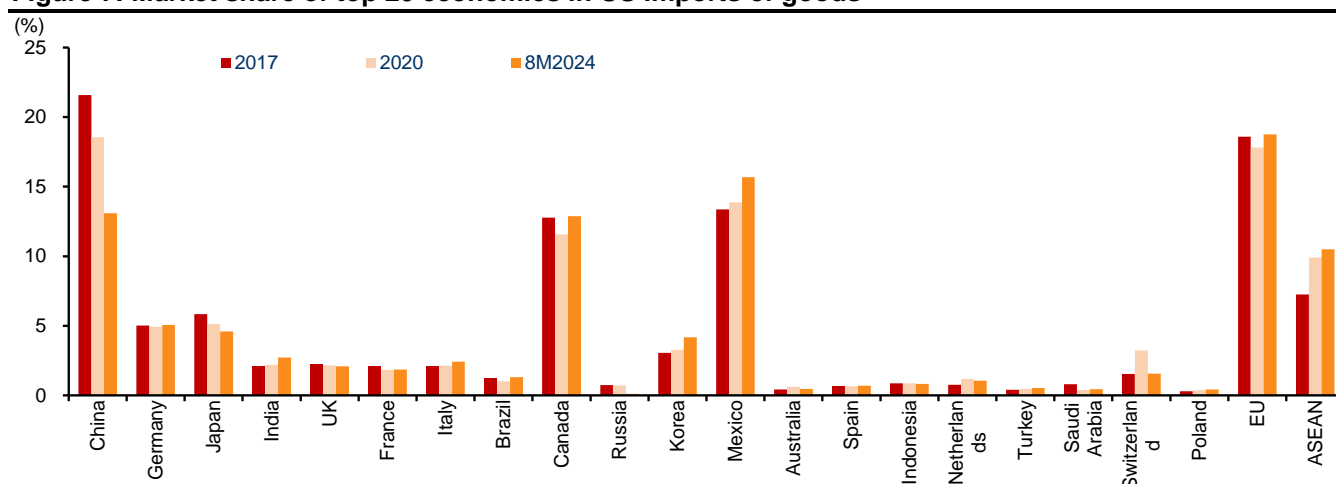
Figure 5: Exports of goods to US as % of GDP in 2023


Source: Wind, CMBIGM

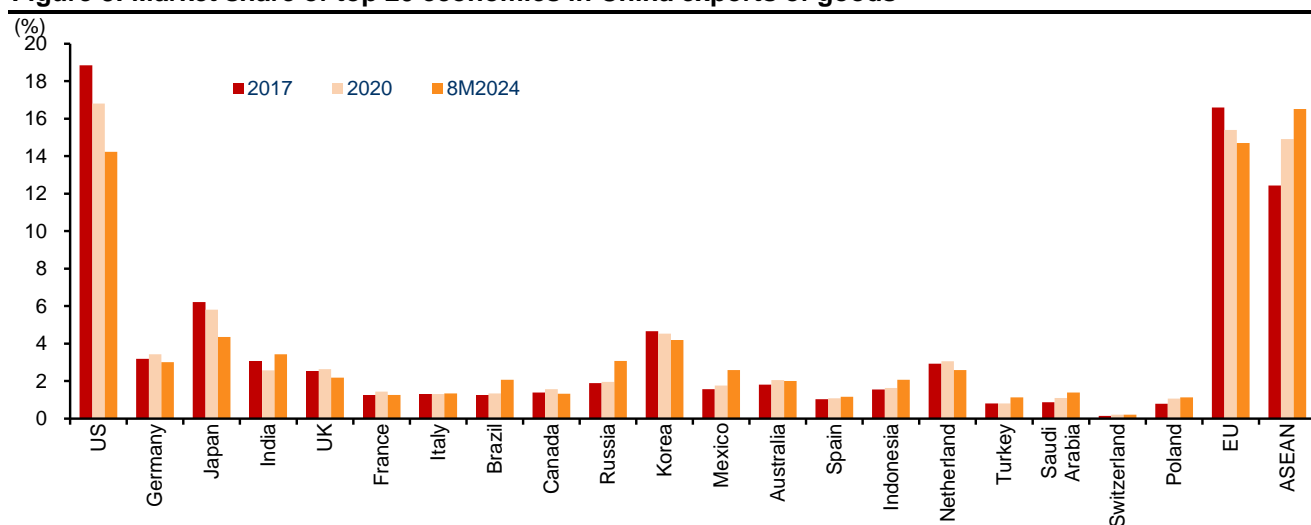
¹ The limited-blown Trump scenario assumes a Republican-led Congress extends the personal tax cuts under the 2017 tax law and enacts higher spending levels, while Trump uses presidential powers to reduce immigration and impose targeted tariffs on China and the EU.

Figure 6: FDI position from the US/GDP in 2022

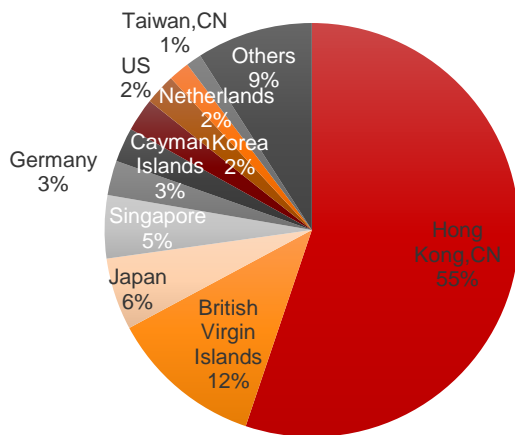
Source: Wind, CMBIGM

Figure 7: Market share of top 20 economies in US imports of goods

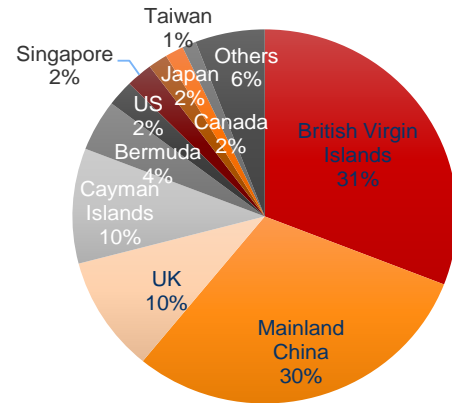
Source: Wind, CMBIGM

Figure 8: Market share of top 20 economies in China exports of goods

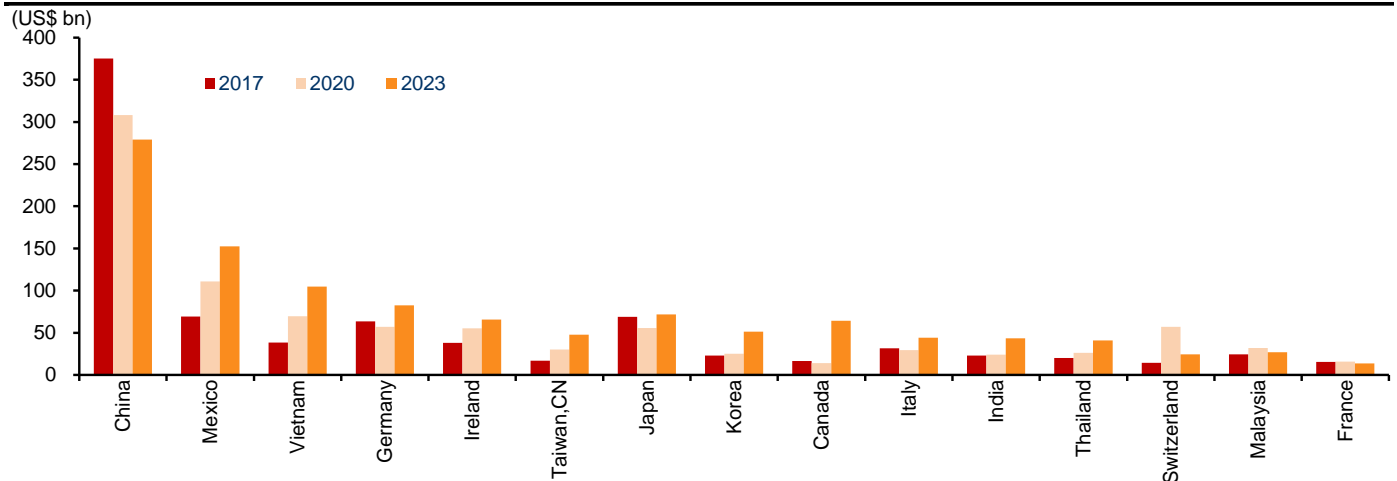
Source: Wind, CMBIGM

Figure 9: China FDI position by source in 2022

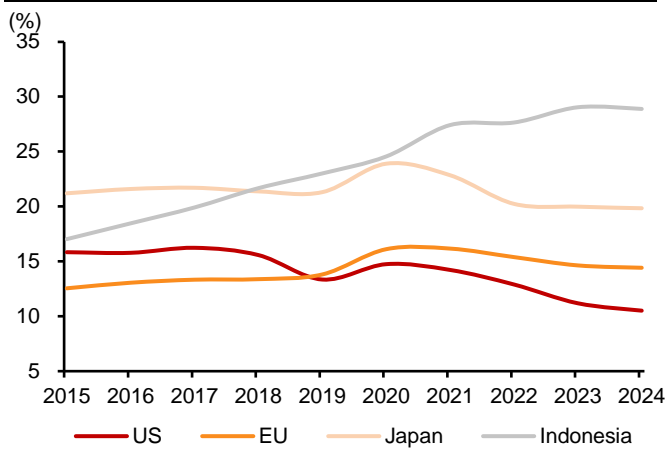
Source: Wind, CMBIGM

Figure 10: Hong Kong FDI position by source in 2022

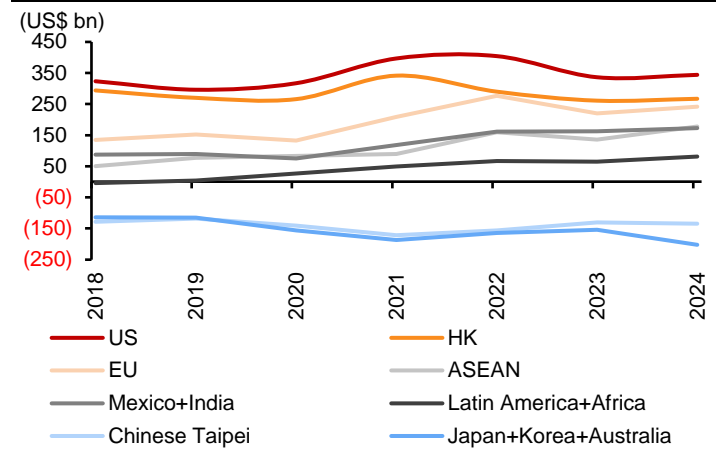
Source: Wind, CMBIGM

Figure 11: Top 15 countries/regions with the largest trade surplus to US

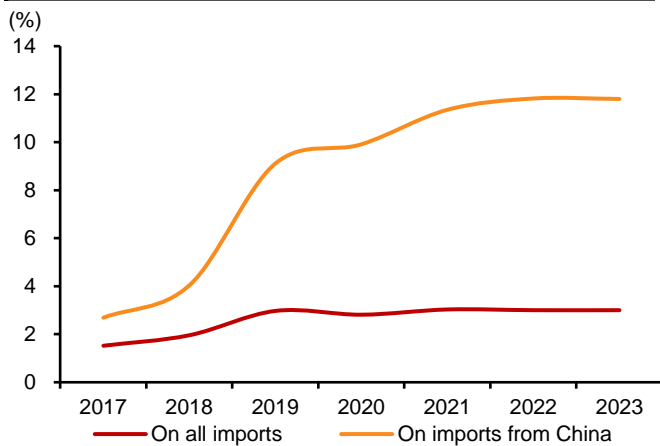
Source: Wind, CMBIGM

Figure 12: Imports from China as % of total imports

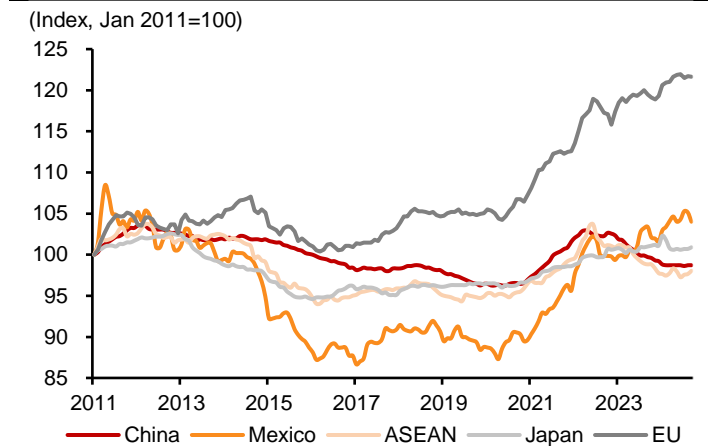
Source: Wind, CMBIGM

Figure 13: China's trade balance with major partners

Source: Wind, CMBIGM

Figure 14: US trade-weighted average tariff rate

Source: Wind, CMBIGM

Figure 15: US import price index by origin

Source: Wind, CMBIGM

Figure 16: China's exports of goods by destination

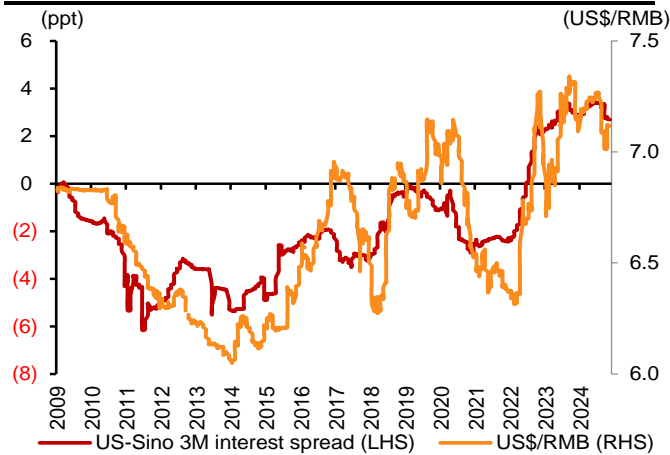
	YoY Growth (%)							Share (%)						
	2018	2019	2020	2021	2022	2023	9M24	2018	2019	2020	2021	2022	2023	9M24
World	9.9	0.5	3.6	29.6	5.6	(4.7)	4.3	100	100	100	100	100	100	100
ASEAN	14.2	12.7	6.7	26.1	17.7	(5.0)	10.2	12.8	14.4	14.8	14.4	16.0	15.5	16.2
US	11.3	(12.5)	7.9	27.5	1.2	(13.1)	2.8	19.2	16.8	17.4	17.2	16.4	14.8	14.6
EU	9.8	4.9	6.7	32.6	8.6	(10.2)	0.9	16.4	17.2	15.1	15.4	15.9	14.8	14.7
Latin America	13.7	2.1	(0.8)	52.0	10.6	(2.4)	11.7	6.0	6.1	5.8	6.8	7.1	7.3	7.9
Africa	10.8	7.9	0.9	29.9	11.2	7.5	(1.7)	4.2	4.5	4.4	4.4	4.6	5.1	4.9
Japan	7.2	(2.6)	(0.4)	16.3	4.4	(8.4)	(5.7)	5.9	5.7	5.5	4.9	4.9	4.7	4.3
South Korea	5.9	2.1	1.4	32.4	9.5	(7.2)	(3.2)	4.4	4.4	4.3	4.4	4.6	4.4	4.1
India	12.7	(2.4)	(10.8)	46.2	21.7	0.8	2.6	3.1	3.0	2.6	2.9	3.3	3.5	3.4
Russia	12.0	3.7	1.7	33.8	12.8	46.9	2.4	1.9	2.0	2.0	2.0	2.1	3.3	3.2
UK	(0.3)	10.4	16.3	19.9	(6.1)	(3.4)	0.2	2.3	2.5	2.8	2.6	2.3	2.3	2.2
Australia	14.2	1.8	10.9	24.2	19.0	(5.3)	(4.6)	1.9	1.9	2.1	2.0	2.2	2.2	2.0
Canada	12.1	5.0	14.0	22.4	4.5	(14.9)	2.4	1.4	1.5	1.6	1.5	1.5	1.3	1.3
Saudi Arabia	(5.1)	36.9	17.7	7.9	25.7	14.5	12.5	0.7	1.0	1.1	0.9	1.1	1.3	1.4
HK China	8.2	(7.6)	(2.3)	28.6	(15.0)	(6.3)	9.8	12.1	11.2	10.5	10.4	8.4	8.1	8.1
Chinese Taipei	10.6	13.2	9.1	30.4	4.2	(16.0)	10.6	2.0	2.2	2.3	2.3	2.3	2.0	2.1

Source: Wind, CMBIGM

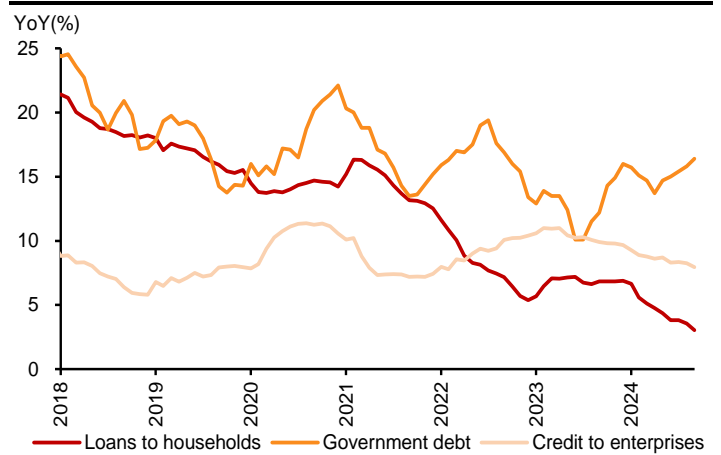
Figure 17: Impact of Trump tariffs on China exports and GDP within two years

	US tariff rate on China (%)	US tariff rate on other partners (%)	Tariff rate on US (%)	US effective tariff rate (%)	US tariff-price pass-through	Price elasticity of US import/export demand	Direct impact on US imports (%)	Impact on US exports (%)	Total impact on US imports (%)	US effective tariffs on China (%)	Impact on China exports (%)	Impact on China GDP (%)
Base scenario	30.0	10.0	5.0	12.4	0.7	0.9	7.8	3.9	8.2	28.5	6.3	1.9
Pessimistic scenario	60.0	20.0	10.0	24.0	0.7	0.8	13.4	6.9	14.1	53.8	10.5	3.1

Source: Wind, CMBIGM

Figure 18: US\$/RMB rates & interest differentials

Source: Wind, CMBIGM

Figure 19: Growth of credit by sector in China

Source: Wind, CMBIGM

Figure 20: Negative correlation between HK stocks & US\$/RMB rates

Source: Wind, CMBIGM

Figure 21: Priorities of US presidential candidates

Policy Topics	Harris's Priorities	Executive Action Required	Legislative Action Required	No Action Required	Trump's Priorities	Executive Action Required	Legislative Action Required	No Action Required
Taxes	<i>Corporate</i>				<i>Corporate</i>			
	Raise top corporate tax rate to 28% from 21%.		✓		Reduce corporate tax rate to 20% from 21% (15% for companies manufacturing their products in the U.S.)		✓	
	Increase corporate alternative minimum tax (CAMT) to 21% from 15%.		✓		Permanently extend quicker capital expenditure depreciation rules enacted in the 2017 Tax Cuts and Jobs Act.		✓	
	Increase tax on stock buybacks to 4% from 1%.		✓					
	Increase deduction for new business startups to \$50,000.		✓					
	<i>Individual</i>				<i>Individual</i>			
	Permanently extend tax rates established in the Tax Cuts and Jobs Act to all individuals except those earning more than \$400,000.		✓		Permanently extend tax rates established in the Tax Cuts and Jobs Act.		✓	
	Permanently extend expanded Affordable Care Act (ACA) health insurance tax subsidies.		✓		Allow expanded Affordable Care Act (ACA) health insurance tax subsidies to lapse.			✓
	Eliminate income taxes on tips for individuals making less than \$75,000.		✓		Eliminate income taxes on tips, overtime pay and Social Security benefits.		✓	
	Reduce estate and gift tax exemptions to pre-2018 levels.			✓	Reinstate deduction for local and state income taxes.		✓	
	Decrease standard deductions to pre-2018 levels.			✓	Make auto loan interest tax-deductible.		✓	
	Impose a wealth tax of 25% on incomes higher than \$100 million.		✓					
	Raise top capital gains tax rate to 33% from 22.4% on incomes exceeding \$1 million (28% on long-term capital gains and net investment income tax of 5%).		✓					
	Raise child tax credit to \$6,000 for families with children less than a year old.		✓		Expand child tax credit to \$5,000.		✓	
	Provide \$25,000 tax credit for first-time homebuyers over four years.		✓					
	Provide new federal funding to spur housing construction.		✓					
	Expand Earned Income Tax Credit (EITC) for low-income families.		✓					
Trade	<i>China</i>				<i>China</i>			
	Target tariffs at industry/geopolitical rivals, including Chinese technology products.	✓			Implement a 60% tariff on goods from China.	✓		
	Increase investment restrictions in key Chinese sectors tied to national security.	✓			Increase investment restrictions on key Chinese sectors tied to national security.	✓		
					Increase restrictions on semiconductor exports to China.	✓		

Policy Topics	Harris's Priorities	Executive Action Required	Legislative Action Required	No Action Required	Trump's Priorities	Executive Action Required	Legislative Action Required	No Action Required
					Revoke China's most favored nation trade status. Phase out imports of essential Chinese goods. <i>Other</i> Implement 10-20% across-the-board tariffs. Reinstitute tariffs on European Union (EU) steel and aluminum. Consider removing the U.S. from the World Trade Organization. Pass the "Trump Reciprocal Trade Act".	✓ ✓ ✓	✓ ✓ ✓	
Regulatory/ Other	Raise the federal minimum wage to \$15/hour from \$7.25. Expand student debt relief. Ban "price-gouging" in the grocery industry. Expand antitrust initiatives/enforcement. Increase the federal minimum wage to \$15 an hour from \$7.25.		✓ ✓ ✓ ✓		Reduce/roll back actions on consumer fees and other Consumer Financial Protection Bureau activities. Challenge pending Basel III bank regulations. Cut regulations substantially across the board. Categorize more civil workers as political appointees rather than employees. Reduce barriers and long approval times for mergers/acquisitions. Eliminate regulations targeting energy-inefficient appliances and products. Eliminate U.S. Department of Education	✓ ✓ ✓ ✓ ✓ ✓	✓ ✓	
Federal Reserve	Preserve the Fed's traditional political independence and likely keep Jerome Powell as chair.			✓	Consider challenging the Fed's political independence. Favor easy-money policies and low interest rates; consider replacing Jerome Powell as chair.		✓ ✓	
Health Care	Reduce drug prices. Expand the \$2,000 cap on out-of-pocket Medicare prescription costs to all Americans. Expand the number of drugs subject to new Medicare price negotiations. Extend Medicare inflation cap to private-sector drugs. Work with state entities to cancel \$7 billion in medical debt for 3 million qualifying Americans. Broaden Medicare benefits cover home health care.	✓ ✓ ✓	✓ ✓ ✓		Reduce drug prices. Accelerate efforts to privatize Medicare and reduce payments to hospitals for outpatient care. Reduce Medicare Advantage payments to insurers. Reduce Medicaid spending and implement work requirements.		✓ ✓ ✓ ✓	
Energy/ Renewables	Extend electrical vehicle incentives to commercial transportation. Expand carbon capture credits.		✓ ✓		Offer tax incentives for oil and gas drilling. Expand carbon capture credits. Eliminate the \$7,500 electric vehicle tax credit. Attempt to roll back green energy tax incentives in the 2022 Inflation Reduction Act (IRA).		✓ ✓ ✓ ✓	

Policy Topics	Harris's Priorities	Executive Action Required	Legislative Action Required	No Action Required	Trump's Priorities	Executive Action Required	Legislative Action Required	No Action Required
					Reduce/roll back fuel efficiency requirements.		✓	
Defense/ Foreign Aid	Increase spending on national defense.		✓		Increase spending on national defense.		✓	
	Maintain financial/arms support of Ukraine.		✓		Reduce or eliminate financial/arms support of Ukraine.		✓	
	Push for cease-fire in Israel/Hamas war.	✓			Emphasize US support of Israel.	✓		
	Reiterate full support of NATO.			✓	Pressure NATO members to spend at least 2% of their GDP on defense.	✓		
Technology	Provide additional subsidies/incentives for U.S. semiconductor suppliers and domestic production.		✓		Apply pressure on social media companies about free speech, antitrust and national security concerns.	✓		
	Maintain U.S. engagement in Organization for Economic Co-operation and Development (OECD) global tax discussions, keeping current suspension of digital services taxes in place.			✓	Seek to exit the Organization for Economic Co-operation and Development (OECD) tax discussions, threatening reimposition of suspended digital services taxes.	✓		
Industrials	Provide additional tax incentives/subsidies for onshoring efforts to increase domestic industrial production and secure supply chains.		✓		Support onshoring efforts to increase domestic industrial production.	✓		
	Support tax credits sending \$100 billion to U.S. manufacturers		✓		Reduce spending on projects for public transit and pollution control.		✓	
Immigration	Implement enhanced border enforcement on asylum seekers.	✓			Increase deportation of undocumented individuals.	✓		
	Support bipartisan border security bill that includes funding for additional border agents and technology to intercept drugs like fentanyl.		✓		Implement substantially more restrictive immigration rules, including avenues for legal work and student visas.	✓		
					Restore funding for the wall on the U.S./Mexico border.		✓	

Source: Wind, CMBIGM

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