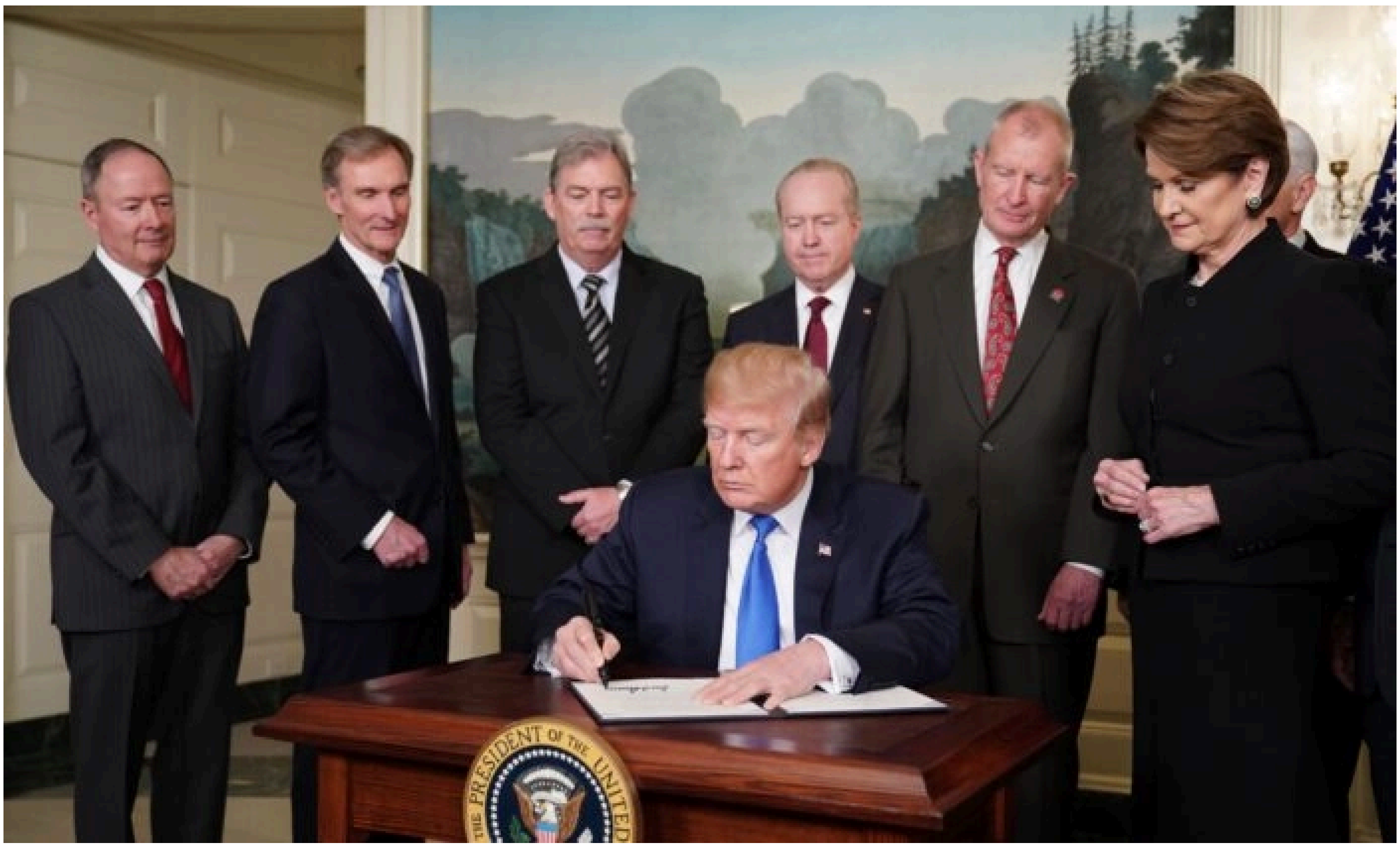
Second Trump Term May Push China's Economy Over the Cliff



Donald Trump, who was then-U.S. President, signs trade sanctions against China in the Diplomatic Reception Room of the White House in Washington on March 22, 2018. Mandel Ngan/AFP via Getty Images

By Antonio Graceffo
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Commentary

The Chinese economy is in far worse shape than it was in 2016, and a second Trump term could push it over the edge.

When news broke that former President Donald Trump had won reelection, stock markets rallied, the dollar rose, the yuan fell, and the Chinese Communist Party (CCP) likely despaired. The trade war Trump launched against China in his first term slowed China's growth, weakened its currency, and drove up debt. However, China managed to withstand the first round of a Trump battle thanks to an otherwise strong economy.

In his second term, Trump has vowed to take an even tougher stance on China, reappointing Robert Lighthizer—the mastermind behind the original China trade war—as the new U.S. Trade Representative. Lighthizer, known for his pivotal work in quantifying the CCP's intellectual property theft at between $225 billion and $600 billion annually, has long recommended that the United States decouple from China, a stance he reiterated in his 2023 book, "No Trade Is Free." Since leaving his previous role in government, Lighthizer has worked at the Center for American Trade at the America First Policy Institute, a think tank that advocates holding China accountable for unfair trade practices, intellectual property theft, and environmental violations.

After four years of Trump tariffs, four years of Biden tariffs, prolonged COVID-19 lockdowns, and steady "de-risking" by European and G7 countries, the Chinese economy remains in the doldrums. Youth unemployment was nearly 19 percent in August, close to the record high of 21.3 percent in 2023. The property sector continues to decline, with new home prices dropping, and local government debt, according to the International Monetary Fund (IMF) estimates, now stands at $8.4 trillion. At the end of 2023, the IMF estimated China's total government debt to be $20.7 trillion, while corporate debt was around 350 trillion yuan, or $48.76 trillion. With China's GDP at just $18.2 trillion, the nation's debt is more than three times the size of its economy.

CCP leader Xi Jinping has launched a major stimulus push, focusing on the troubled property market, local government debt, and interest rate cuts. Key moves have included lowering mortgage rates, injecting liquidity to spur lending, and unveiling a $1.4 trillion plan to alleviate local governments' debt burdens. Although these actions have provided some relief, they haven't significantly boosted consumer spending. Household spending as a percentage of GDP remains under 40 percent, about 20 points below the global average, reflecting Xi's ongoing struggle to shift China's economy from an export-driven model to one based on services and consumption.

Despite his goals, Xi has been forced to rely once again on manufacturing and exports to support the post-COVID economy, yet this strategy is proving ineffective. The yuan is already 10 percent weaker than it was at the start of the trade war, limiting the CCP's ability to further devalue the currency to stimulate exports.

Analysts widely agree that China's economic challenges are structural—stemming from an aging population, massive debt in the real estate and local government sectors, and falling investment. With these deep-rooted issues, most experts predict China will fall short of its 5 percent growth target.

In his first term, Trump imposed tariffs of up to 25 percent on Chinese products. This time, he has pledged tariffs as high as 60 percent on Chinese imports, a move that could severely cripple China's export sector. China's central bank would need to devalue the yuan by around 18 percent to counter such steep tariffs, bringing the exchange rate to 8.5 yuan to the dollar—a devastating blow to the currency. The Trump–Lighthizer duo could, in effect, decimate China's manufacturing, stifling exports and driving up unemployment.

Nearly half of China's exports come from foreign-invested firms, which would likely be forced to relocate to the United States or allied nations like India, Thailand, Indonesia, and Vietnam. This shift would further impact China's foreign direct investment, which has already seen a 28.1 percent decline in the first five months of the year compared to the same period in 2023. European leaders are now in discussions, aware that Trump will likely pressure them to support U.S. sanctions on China, potentially accelerating the downward trend in China's foreign direct investment.

Another factor that worked in Beijing's favor during the first trade war was the U.S. COVID-19 stimulus; much of the government-issued money ended up purchasing Chinese imports. This time, however, Beijing won't have that buffer. Xi is now up against a reinvigorated Trump, the original China hawk, backed by a favorable Congress and a U.S. populace with a record 81 percent unfavorable view of China. Americans are far more likely to support a trade war now, and with China's weakened economy, a renewed trade war could deliver a massive blow to Beijing.

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

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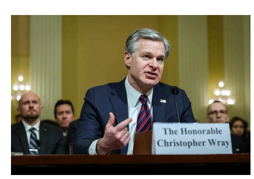

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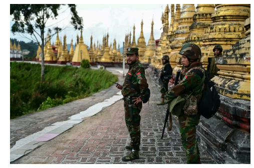

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