CHINA
MONTHLY
NOVEMBER 2024

The Second Coming of Donald Trump?
Implications for China

The Big Picture

AI Patents Granted

— China   — EU & UK   — US

Source: Artificial Intelligence Index Report 2024
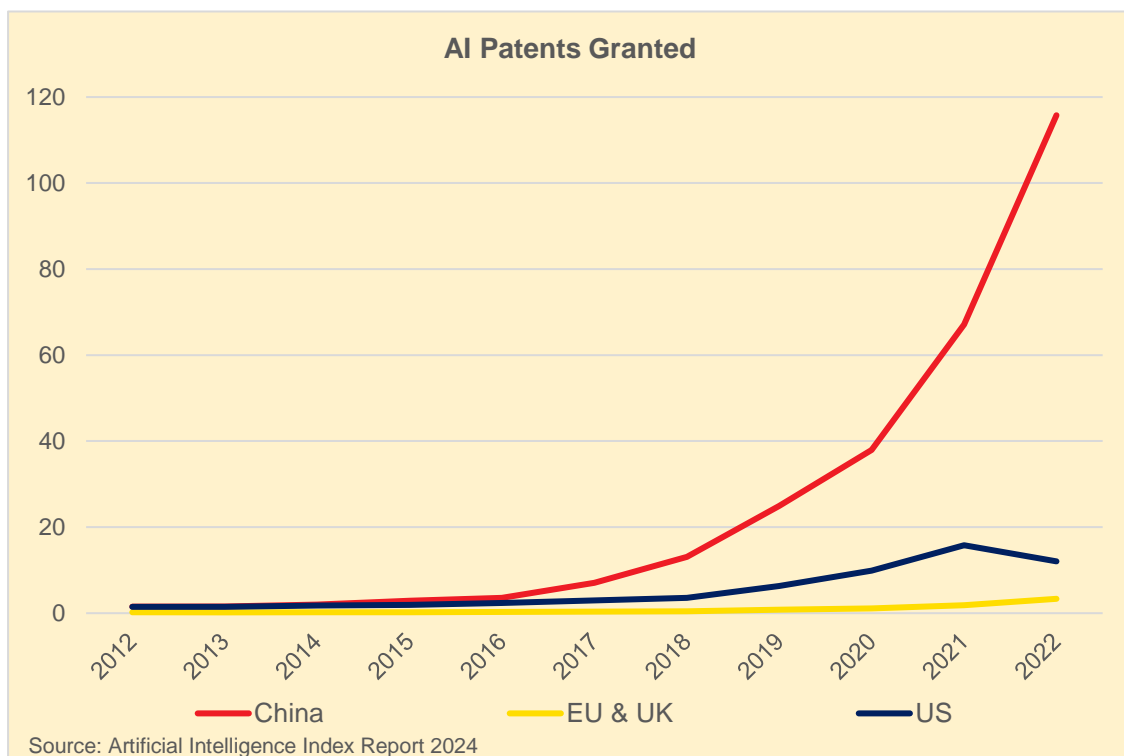
China's explosive growth in the number of AI patents granted each year since the mid-2010s, illustrating its centrality in Beijing's long-term economic blueprint.

SINGAPORE   SHANGHAI   BEIJING   SHENZHEN

THE BRIEFING

Special Bonds for Unsold Homes

Local governments will be allowed to use special bonds to buy unsold homes, Finance Minister Lan Fo'an announced at the key Saturday briefing in October, without giving an amount. Lan hinted at room for issuing more sovereign bonds and vowed to relieve the debt burden of local governments. "The central government still has quite large room to borrow and increase the deficit," Lan said, without providing a time frame. Officials said China will also issue special sovereign notes to boost capital at its largest state-owned banks, a move expected to spur lending to lift the economy. Vice Premier He Lifeng described the property market as a "weather vane" for the Chinese economy during a visit to several cities in northwestern China in October, calling on officials to "concretely enhance awareness of the political significance" of ensuring housing project delivery and stabilizing the market.

October Domestic Tourism Spend Beats 2019

Sectors from tourism and catering to housing saw a substantial bump in revenue over the week-long October "golden week" holiday as Chinese consumers spent more generously amid an upturn in market confidence following a comprehensive stimulus package announced late September that gave the nation a clear direction of travel. From October 1-7, one of China's longest public holidays, domestic trips grew 5.9% year-on-year to 765 million, surpassing the same period in 2019 by 10.2%. Their spending grew 6.3% YoY to CNY701 billion, beating the same period in 2019 by 7.9%.

China-India Deal Cools Border Standoff

China and India pulled back troops deployed nose-to-nose from two remaining flash points along their disputed Himalayan border after Chinese President Xi Jinping and Indian Prime Minister Narendra Modi's first formal meeting in two years on the sidelines of the BRICS summit in Kazan. Structures built during the four-year border stalemate will be dismantled and the nuclear powers will resume normal border patrols, easing a standoff that began in 2020 when clashes left 20 Indian and at least four Chinese soldiers dead. The latest agreement leaves out several no-patrol zones along the border created in the last four years to prevent further clashes between troops, where future talks will address those buffer zones. Military commanders from both sides will continue to discuss confidence-building measures to further prevent clashes.

EU-China Talks to Continue After EV Tariff Hike

The European Union and China in late October agreed on further technical negotiations soon, beyond the eight rounds thus far, on alternatives to tariffs on China-built electric vehicles. While the EU was set to impose additional tariffs of up to 35.3% the following week, talks can continue after that. The two sides are looking at possible minimum price commitments from Chinese producers or investments in Europe as alternatives.

THE SECOND COMING OF DONALD TRUMP? IMPLICATIONS FOR CHINA

By Tan Kong Yam

A New Global Order

To truly appreciate China's possibility of achieving great power status, one must look back at its historical prominence. In 1700, China accounted for 23% of global GDP, reaching its zenith in 1820 when it contributed nearly one-third of the world's economy. However, from 1820 to 1978, China had endured what is known as the "century of humiliation", during which its share of global GDP plummeted to a low of just 5%. After President Xi Jinping was anointed as China's President in 2012, he set a goal of restoring China's past preeminence, aiming for a return to the era when it commanded about a third of global GDP (Figure 1).

Figure 1: Shares of World GDP (PPP), 1700 – 1995 (Per Cent)

	1700	1820	1890	1952	1978	1995	2008	2020 (USD)
中国 China	23.1	32.4	13.2	5.2	5.0	8.9	12.1	16.8
印度 India	22.6	15.7	11.0	3.8	3.4	4.2	5.5	3.0
日本 Japan	4.5	3.0	2.5	3.4	7.7	8.4	6.8	5.2
欧洲 Europe	23.3	26.6	40.3	29.7	27.9	23.8	21.1	20.0
美国 United States	0.0	1.8	13.8	28.4	21.8	20.9	20.0	22.2
前苏联/俄罗斯 USSR/Russia	3.2	4.8	6.3	8.7	9.2	2.2	3.4	1.7

Source: Maddison (2002), IMF

Historically, the nation with the most advanced technology, as highlighted by the Schumpeter technology wave, had also been the dominant economic and military power. The United Kingdom held this status from 1785 to 1900, followed by the United States from 1900 to today (Figure 2).

**Figure 2: Schumpeterian Technology Wave**
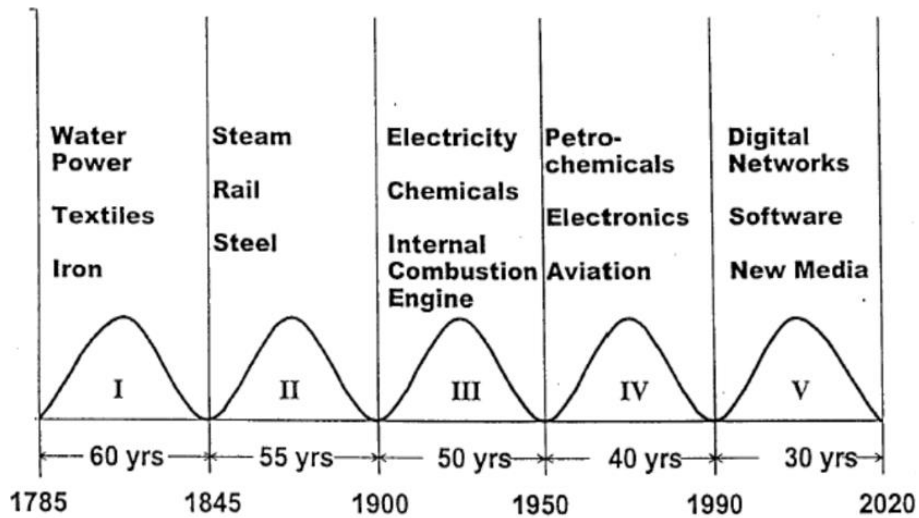
From 2020 to 2050, the leading technologies will be Semiconductors, Artificial Intelligence (AI), 5G/6G and Telecommunications, Quantum Computing, Biotechnology and Genomics, Clean Energy Technologies, Cybersecurity and Encryption, Space Technologies, Autonomous Systems and Robotics, as well as Advanced Materials and High-Value Add Manufacturing.

This will be the era where the US and China will continue to compete intensely for technological and military superiority.

Between 1990 and 2007, US regions with the highest concentration of light manufacturing industries bore the brunt of competition from China's highly efficient and competitive industries (Figure 3).
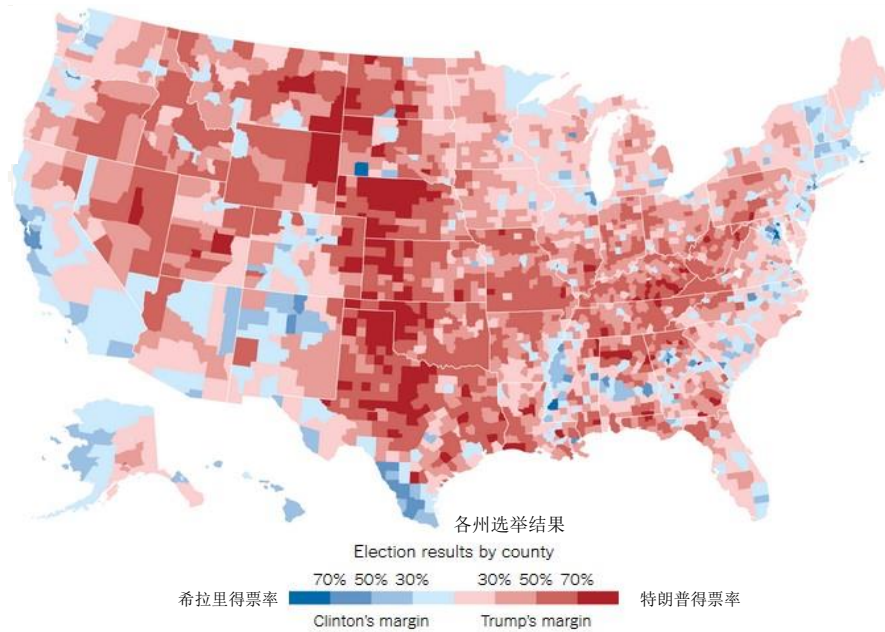
Figure 3: Most-affected Areas of the US
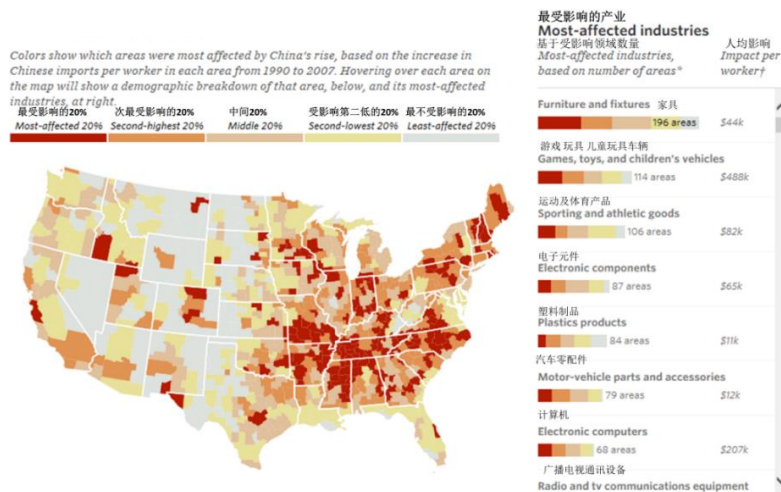
Source: Autor

Research by economists Autor, Dorn and Hanson shows that the constituencies that overwhelmingly supported President Donald Trump over Hillary Clinton in the 2016 election were largely hit by Chinese light manufacturing exports. Prior to Trump, no presidential candidate had advocated for the interests of these lowly-skilled blue-collar workers (Figure 4).

Figure 4: Distribution of Trump Voters by County

各州选举结果
Election results by county

| 70% 50% 30% | 30% 50% 70% |

希拉里得票率   Clinton's margin   Trump's margin   特朗普得票率

The inability of unskilled workers gaining political representation stemmed from the strong influence of capital and skilled labor, both of which benefited greatly from trade and investment ties with China. In particular, capital played a critical role in political campaign fund raising. Companies like Apple, for instance, could not have grown into a USD3.5 trillion enterprise in a short period of time without China serving as both a low-cost production hub and offering freely a humongous consumer market (Figure 5).

Figure 5: US Companies Enjoy High Profit Margins in China

Apple vs Foxconn: Gross Profit Margins   苹果与富士康 毛利率

毛利率%

— Foxconn   — Apple

苹果

富士康

2010-2017

ANDROID AUTHORITY

Hon Hai Technology Group (Foxconn) may be building all the iPhones, but Apple's profit margins are substantially higher.
鸿海科技集团（富士康）代工生产iphone，但苹果的利润率要高得多

Thanks to China's productive and diligent workforce, China's economy grew from 6.7% of US GDP in 1980 to an impressive 70% by 2023. This seemed to have been sort of a wake-up call for the US, symbolizing that China, like the towering Yao Ming, was steadily growing taller and potentially surpassing even the stature of a figure as dominant as NBA legend and Hall of Famer Shaquille O'Neal (Figure 6).

Figure 6: GDP of China and the US (In USD billions)

	China GDP 中国国内生产总值	US GDP 美国国内生产总值	Japan GDP 日本国内生产总值	China/US (%) 中国/美国%	China/Japan (%) 中国/日本%
1980	191	2857	1105	6.7	17.3
1990	361	5963	3133	6.1	11.5
2000	1211	10250	4888	11.8	24.8
2010	6087	14990	5700	40.6	106.8
2010 (PPP) 购买力平价	12445	14990	4486	83.0	277.4
2021	17728	22990	5390	77.1	328.9
2019 (PPP) 购买力平价	27307	21428	5712	127.4	478.1

A notable shift was detected in Silicon Valley's perception of China between 2010 and 2021. During this period, China transitioned from being seen as a mere imitator to a valuable market, then to a formidable competitor, and ultimately an inspiration (Figure 7).
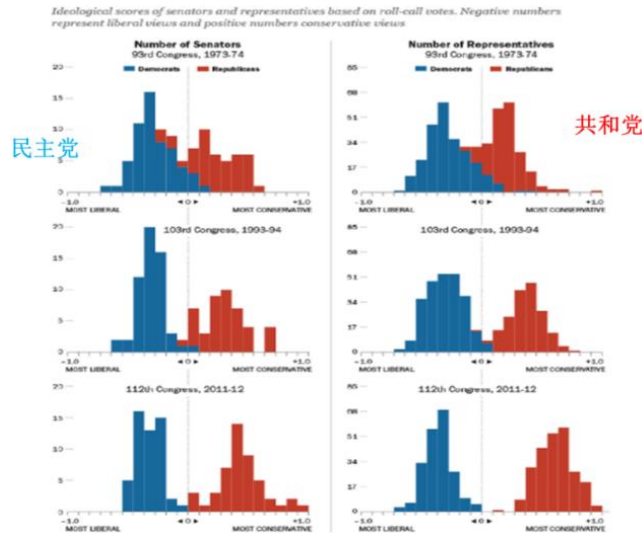
Figure 7: Silicon Valley's Views of China Across Five Dimensions, 2010 - 2020
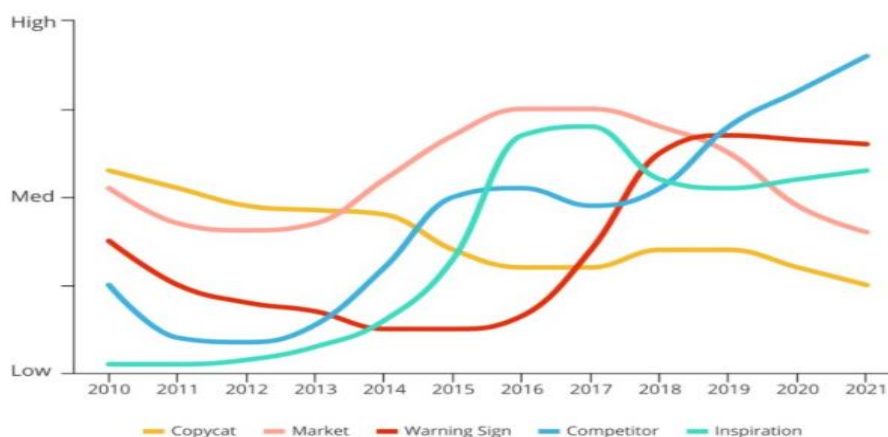
**America's Domestic Polarization**

Over the past 30 years, the deepening ideological polarization within both the US Congress and the general public has significantly reshaped the political landscape (Figure 8).

Figure 8: In Congress as Well as Public, the Center Increasingly Cannot Hold

In particular, following President Xi's more assertive policies and President Trump's trade war with China, negative perceptions of China among the US public surged dramatically after 2017 (Figure 9).

Figure 9: Negative Views of China Continue to Grow in US
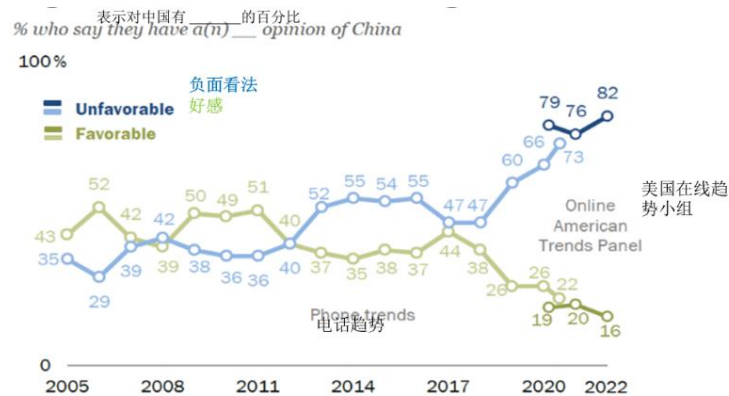
Source: PEW Research Center

A recent shift in American political dynamics reveals that more Americans are aligning more closely with the Republicans than the Democrats for the first time in decades. This trend, confirmed by NBC and Gallup polls, shows Republicans with a two to three percentage point lead in party identification and affiliation. This development should have significant implications for the November 2024 presidential election, giving Republican candidate Donald Trump a potential advantage.

Analysts suggest that this shift is driven by widespread dissatisfaction with President Joe Biden's handling of key issues such as the economy and immigration. Polls indicate that Republicans are increasingly viewed as more capable of addressing these challenges, further contributing to their growing support. Furthermore, this trend may also influence US-China relations, as Democrats tend to adopt a more anti-China stance compared to Republicans.

With limited time remaining as the November election looms ever larger, the Kamala Harris and Donald Trump campaigns are bracing for "trench warfare". With both campaigns neck-and-neck in seven key battleground states — Georgia, Arizona, Nevada, North Carolina, Wisconsin, Michigan, and Pennsylvania — the election is expected to be decided by a small margin, making voter turnout a critical factor in these purple states. A purple state is one where there is a mix of support for both parties, making it competitive and hard to predict which way the vote will swing in November. Purple states can shift between voting for Democrats or Republicans, unlike solid red (Republican) or blue (Democratic) states, which consistently lean toward one party.

With only about 4% of voters still undecided in these states, both campaigns are focusing on mobilizing these voters. Trump's campaign is leveraging global and domestic crises, such as the war in Gaza and recent hurricanes, to portray Harris as unprepared for leadership in uncertain times. They argue that the country has shifted more conservative on issues like immigration and continues to trust Republicans more on economic matters, despite improvements in inflation and gasoline prices.

Trump's campaign uses fear-based messaging, highlighting threats of global conflict and domestic collapse, to reinforce his image as a strong, decisive leader, in contrast to the depiction of a weak and inexperienced Harris.

In this deeply polarized environment, the 2024 election is shaping up to be one of the closest and most hard-fought races in recent history. Both sides are bracing for a final, high stakes push to win over fence-sitters in these decisive swing states.

Why Donald Trump is More Likely to Win

Donald Trump's political base remains a significant factor for his success this November. His core supporters, characterized by a coalition of working-class voters, rural Americans, evangelicals, and those disaffected by political elites, are highly loyal. These voters believe in Trump's populist rhetoric, "America First" agenda, and his critique of globalism, immigration, and the Washington establishment. He will campaign for law and order, gun rights, and

religious freedom, all of which have strong resonance with conservative and right-leaning voters.

Trump's ability to energize his base is unparalleled in recent history. His rallies, social media engagement, and direct messaging appeal to a sense of cultural alienation among many voters who feel left behind by technological and demographic changes. His emphasis on issues such as illegal immigration, law and order, and American sovereignty resonates strongly with these groups

However, Trump's appeal loses its luster in suburban and urban areas, especially among college-educated voters, women, and younger generations.

A Trump victory will hinge on success in key battleground states that traditionally decide the election. States like Pennsylvania, Michigan, Wisconsin, Florida, and Arizona are once again critical to both candidates' electoral strategies. Trump's narrow wins in the Rust Belt states in 2016 demonstrated his appeal to disaffected working-class voters.

In addition, any accurate assessment of his chances must consider polling errors that have occurred in previous cycles, particularly the phenomenon of "shy Trump voters" who do not openly express their support but vote for him.

Recent shifts in the electorate may also influence Trump's path to victory. He performed better than expected among Hispanic and Black voters in 2020, especially in states like Florida and Texas.

Trump's China Versus Harris' China

An analysis of the positions of Donald Trump and Kamala Harris on China reveals contrasting approaches, rooted in their broader views on foreign policy, trade, and national security. Both figures view China as a significant geopolitical competitor, but their strategies for handling the US-China relationship diverge in several key areas.

<u>Donald Trump's Position on China</u>

Trump's policy towards China was heavily shaped by his belief that China had engaged in unfair trade practices that harmed American workers and industries. Early in his presidency, he launched a trade war with China, which came to define his administration's China policy. Imposing tariffs on approximately USD360 billion worth of Chinese goods, Trump tried to reduce the US trade deficit with China and pressure Beijing to change its trade practices. The tariffs were designed to protect US industries from what he termed China's "theft" of intellectual property and forced technology transfers.

Trump's administration pushed for a partial economic "decoupling" from China, encouraging American companies to move their supply chains out of China to reduce dependency on Chinese manufacturing. This was part of a broader effort to weaken China's economic leverage over the US.

Trump viewed China not only as an economic rival but also as a growing national security threat. A major focus of Trump's China policy had been limiting Chinese technology firms' influence, particularly Huawei, which he viewed as a national security risk due to alleged ties to the Chinese government. His administration slapped sanctions on Huawei and pressured allies to exclude Huawei from their 5G infrastructure.

Trump also took steps to restrict Chinese investments in sensitive US sectors, including technology and infrastructure, citing national security concerns. His administration expanded the powers of the Committee on Foreign Investment in the United States (CFIUS) to block Chinese investments in critical industries.

Trump consistently pointed to China's military expansion, especially in the South China Sea, as a threat to global stability. His strategy was to strengthen US military ties with allies in the Indo-Pacific region as a counterbalance to China's growing influence.

Trump's diplomatic approach to China was highly transactional and often inconsistent, frequently using aggressive rhetoric, accusing China of economic malfeasance and blaming Beijing for Covid, often calling it the "China virus" and contributing to a sharp deterioration in US-China relations.

Trump's administration supported Taiwan, which Beijing regards as a renegade province, approving arms sales and increasing diplomatic exchanges. The administration had condemned Beijing's crackdown on pro-democracy protests in Hong Kong, passing legislation such as the Hong Kong Human Rights and Democracy Act in 2019. Trump's relationship with China was also linked to his North Korea policy. He sought China's assistance in pressuring North Korea to give up its nuclear weapons, which achieved mixed results, at best. While Trump often praised Chinese President Xi Jinping for cooperating on North Korea, broader US-China relations remained tense.

While the Trump administration sanctioned Chinese officials it held responsible for alleged repression of minorities in certain parts of China, calling it one of the worst human rights abuses in recent history, Trump often downplayed human rights issues during trade negotiations with China, reflecting his largely transactional approach.

Donald Trump approached diplomacy as dealmaking, focusing on securing immediate benefits for the US rather than fostering long-term alliances or signing multilateral agreements. He favored direct, bilateral negotiations and was critical of organizations like NATO and deals such as the Paris Climate Accord, which he saw as burdens unless they clearly benefited the US.

Trump used economic pressure, such as tariffs, to renegotiate relationships, particularly with China. He framed diplomacy in terms of "winning" deals, seeking to renegotiate or withdraw from agreements like the Iran nuclear deal. Personal relationships were central to his strategy, particularly with adversary leaders like North Korea's Kim Jong-un and Russia's Vladimir Putin. His methods, such as direct, surprise communications via social media and public statements, broke diplomatic norms but were intended to prioritize US interests. His supporters believe this controversial approach had achieved tangible results.

Kamala Harris' China

Kamala Harris, as part of the Biden administration, represents a continuation of the US shift towards a more intense strategic rivalry with China, albeit with significant differences in approach compared to Trump. While Harris supports a tough stance on China, she emphasizes multilateralism, diplomacy, and rebuilding alliances to counterbalance China's influence globally, while cooperating on global challenges like climate change.

Harris, alongside President Biden, is less confrontational on trade with China compared to Trump, focusing more on strengthening the US economy and competing with China through innovation rather than tariffs.

The Biden-Harris administration supports investments in American infrastructure, technology, and manufacturing to reduce dependence on Chinese supply chains and boost US competitiveness. They favor reshoring critical industries and fostering new ones, such as clean energy, semiconductors, and artificial intelligence.

While Harris is unlikely to fully reverse tariffs on China, she favors a more targeted and strategic use of tariffs rather than the blanket tariffs imposed under Trump. Unlike Trump's focus on bilateral deals, Harris supports re-engaging in multilateral trade agreements, such as the Trans-Pacific Partnership (TPP), which was abandoned by Trump. This would allow the US to better compete with China in the Asia-Pacific region by forming stronger economic alliances. A cornerstone of Harris' approach is rebuilding alliances that were frayed under Trump. Harris advocates working closely with allies in Europe and Asia to present a united front against China, particularly in the Indo-Pacific region.

Harris will likely keep up the Biden administration's commitment to the Indo-Pacific, strengthening alliances with countries like Japan, South Korea, and Australia to counter China's growing influence and compete with China in the South China Sea.

Harris shares Trump's concerns about China's growing influence and national security threats, particularly in technology and military capabilities. This is one area broadly agreed upon by most American voters, whether from red, blue, or purple states across the country.

Like Trump, Harris views China's advancements in technology, particularly 5G, as a security risk. However, her approach is to work closely with allies to develop alternatives to Chinese technology, particularly through partnerships with other democracies to create secure 5G networks and protect supply chains for critical technologies.

Harris will likely continue US President Joe Biden's retention of Trump-era restrictions on Chinese investments in sensitive sectors, such as semiconductors and telecommunications, as well as his focus on strengthening domestic industries and protecting intellectual property. Harris also emphasizes cybersecurity as a critical area of concern with China, focusing on cyber espionage, hacking, and the protection of US infrastructure from Chinese cyber threats.

Unlike Trump, Harris supports engaging China on global issues where cooperation is necessary, such as climate change and pandemics. Harris believes that while the US must compete with China, it should also seek areas where the two countries can collaborate for mutual benefit.

Harris has taken a stronger stance on human rights issues than Trump, with the Biden-Harris administration expanding sanctions on Chinese officials and entities it alleges of secretly carrying out what it labels as allegedly very serious human rights abuses in certain parts of China.

Harris has condemned what she sees as China's efforts to erode freedoms in Hong Kong, while the Biden-Harris administration has maintained restrictions on Chinese imports tied to alleged forced labor. She is likely to continue in that direction, should she win the White House.

While both Donald Trump and Kamala Harris agree on the need to counter China's rise as a geopolitical and economic competitor, reflecting the broader shifts in US-China relations, Harris's style is more nuanced, alliance-driven, and multilateral, versus Trump's direct, confrontational bluster.

Trump has proposed raising tariffs on all Chinese goods to 60%, which would have a significant impact, potentially lowering China's projected 2025 growth from 4.8% to around 3.4%, a decrease of 1.4 percentage points. UBS estimates are more dour, positing that 60% tariffs could suppress GDP growth by about 2.5 percentage points within 12 months of implementation, although if China takes countermeasures, the drag on growth may be limited to 1.5 percentage points. Few though estimate the impact on US inflation.

On the critical issue of Taiwan, it is noteworthy that Trump, being a businessman, could be less ideological and pragmatic on the issue. It is useful to quote his full reply in a 16 July 2024 Bloomberg Magazine interview, to the question "Would you defend Taiwan against China?":

> "Look, a couple of things. No. 1, Taiwan. I know the people very well, respect them greatly. They did take about 100% of our chip business, I think. Taiwan should pay us for defense. You know, we're no different than an insurance company. Taiwan doesn't give us anything. Taiwan is 9,500 miles away. It's 68 miles away from China. A slight advantage, and China's a massive piece of land, they could just bombard it. They don't even need to — I mean, they can literally just send shells. Now they don't want to do that because they don't want to lose all those chip plants. You know, all those plants and they don't want to do that. But I will tell you, that's the apple of President Xi's eye, he was a very good friend of mine until Covid that I really, you know, I was, I didn't feel the same way. Same thing with Putin.
>
> They took almost 100% of our chip industry, I give them credit. That's because stupid people were running the country. We should have never let that happen. Now we're giving them billions of dollars to build new chips in

our country, and then they're going to take that too, in other words, they'll build it but then they'll bring it back to their country.

I just think we have to be smart but remember 9,500 miles away. You have to do double loads on airplanes to get them over, by the time they get over here, they have to leave. But it's a very, very difficult thing."

Xi's Strategy

Xi's long-term strategy remains focused on shifting capital from real estate to high-tech manufacturing, which he views as essential for China's future prosperity and self-sufficiency. The latest stimulus is aimed at maintaining stability in the short term to allow this vision to be realized, avoiding the pitfalls of previous mistakes, such as the debt-fueled infrastructure boom of 2008-09 and the stock market bubble of 2015.

The current measures, including potentially issuing more long-term government bonds and recapitalizing state-owned banks, aim to minimize the risk of deflation and support investments in targeted sectors. However, Beijing's strategy continues to emphasize the centralized control of finance and capital allocation, with a focus on investment over consumption. Mortgage deregulation is a minor adjustment but that doesn't alter the overall goal of reducing real estate's dominance in the economy.

In the near term, economic growth and stabilization and stock market confidence may improve, but Xi's overarching vision remains unchanged: technological advancement and self-sufficiency take priority over maximizing GDP growth and corporate profits. The stimulus is part of a carefully managed approach to achieve long-term national goals, rather than short-term financial gains.

China and ASEAN: Common Interests

The US trade and technology war has fostered greater integration within Asia. Due to higher wages in the US, most factories relocating from China have moved to other Asian countries, rather than returning to the US as Trump had hoped. Many of these factories still rely on key components from, and supply chains within, China. As a result, the US trade and technology war has inadvertently promoted greater regional integration in Asia, particularly between China and countries of the Association of Southeast Asian Nations (ASEAN).

Building China's Future Security

China's advanced manufacturing upgrade can evolve into a global development zone. Within this zone, BRICS nations, ASEAN, Africa, and the Middle East will serve as key sources of raw materials, energy, and markets, while also becoming crucial manufacturing bases linked to China's advanced manufacturing systems. This will further strengthen China's existing Belt and Road Initiative.

This region can potentially develop into a dynamic global Renminbi trade zone, providing China with a buffer against potential US pressure in areas such as trade, markets, capital flows, energy security, trade sanctions, and the freezing of foreign exchange reserves.

Dr. Tan Kong Yam is a founding member and Deputy Chairman (China) of APS Asset Management. He is also professor of economics at the Nanyang Technological University. He served as a board member at the Changi Airport Group (2015-2024). From 1985-88, he was the chief assistant to Dr. Goh Keng Swee, the late Deputy Prime Minister of Singapore who was invited by Mr Deng Xiaoping to advise China on economic development strategy. From June 2002 to June 2005, he was a senior economist at the World Bank office in Beijing. In 2004, he was a member of the World Bank expert group on the eleventh five-year plan (2006-2010) for the State Council in China. He served as the chief economist of the Singapore government (1999-2002).