



# FOREIGN AFFAIRS

Published by the Council on Foreign Relations

[Home](#) > How Trump's Policies Are Helping China

Friday, September 28, 2018 - 12:00am  
How Trump's Policies Are Helping China  
Beijing Still Can't Believe Its Luck  
Yadong Liu

Yadong Liu is former Chief Executive Officer of CEFC Global Strategic Holdings, a New York–based firm that invests in energy and energy technologies.

For the first year of Donald Trump's presidency, most Western commentators on U.S.-Chinese relations saw the Trump administration's approach to China as a strategic failure; some even concluded that Chinese President Xi Jinping had duped Trump. Recently, however, a different narrative has emerged in Western media. According to this view, Trump's pressure on China is working [1], and Chinese leaders are worried [2]. Trump's 25 percent tariffs on \$50 billion of Chinese imports are hurting the Chinese economy at a time when China is overleveraged and growth is slowing down, advocates of this view assert. Meanwhile, they say, Trump's July meeting with European Commission President Jean-Claude Juncker was a brilliant tactical feint: by negotiating a "cease-fire agreement" over trade with the EU, Trump united the West against China. In September, Trump showed his resolve by imposing [3] tariffs on an additional \$200 billion worth of Chinese imports. At the same time, according to some reports [4], dissent over Xi's one-man control of Chinese strategy is growing within China, and Chinese leaders are looking for ways to mollify Trump.

Yet this narrative is almost the exact opposite of the truth. The fact is that, despite escalating trade tensions, Beijing should still see Trump as the ideal U.S. president for China. Trump's withdrawal from the Trans-Pacific Partnership, his tough approach to trade with Japan, and his talk of removing U.S. troops from South Korea all served China's interests by accelerating the decline of U.S. influence in Asia, opening space for China to expand its influence even faster than it had ever thought possible. China could hardly hope for a more cooperative occupant of the White House. There's also good reason to think that China remains confident in its ability to manage Trump. Based on conversations I have had with a person close to the Chinese leadership, Beijing does still see Trump as a much better U.S. president for China's interests than the alternatives.

## WINNING THE TRADE WAR

Beijing's confidence is rooted in economics. In the game that Washington and Beijing are playing on trade, China holds a number of cards that are not well appreciated among American analysts—and perhaps not by U.S. policymakers either. Balance-of-trade statistics show that China runs a \$370 billion trade surplus with the United States but don't show who is garnering the profits from these exports. Most of the Chinese exports that

Trump is trying to strangle with tariffs are either produced or marketed not by Chinese but by Taiwanese, South Korean, and U.S. companies. One example of this is the iPhone, which is produced with Chinese labor by Taiwanese-owned factories and marketed by Apple, a U.S. corporation. As Chinese Premier Li Keqiang pointed out in warning against a trade war in March last year, “More than 90% of [the] profits [in examples like this] were taken by the United States. We have statistics showing that last year, China-U.S. trade and investment created more than one million jobs in the United States.”

Moreover, much of the money that U.S. firms earn in China is not reflected in trade statistics, because it accrues to U.S. companies and joint U.S.-Chinese ventures that produce within China for the Chinese market. For some of the largest American companies, including automobile and aircraft manufacturers, the Chinese market is more important for future growth than the U.S. market. And if the trade war heats up, China has numerous legal ways to frustrate U.S. firms’ success in the Chinese market. Washington would have no way to retaliate, because the U.S. market is not particularly important to Chinese firms.

## **TRUMP, INC.**

Chinese leaders long ago took the measure of Trump. He is above all a businessman, not a strategist. What is more, his primary long-term concern is the profitability of his own enterprises, a goal that he prioritizes over the advancement of U.S. national interests. China has already been helpful to Trump’s personal bottom line. It has, for example, fast-tracked the approval of trademarks owned by Ivanka Trump and supported development projects in Indonesia that involve the Trump Organization. And Beijing, which is rarely bashful about offering business opportunities as incentives or paybacks to foreign politicians, can be even more helpful to Trump in the future.

As should be clear to Beijing, Trump’s primary interest is, not surprisingly, to stay in power. To do so, he needs to deliver a string of victories to his electoral base. His method has become clear: he creates an atmosphere of crisis and then stages a dramatic but cosmetic resolution that changes nothing. This was the pattern in his initial dealings with China, when he talked tough and then hosted Xi for a love-fest at Mar-a-Lago. He followed the same playbook with North Korea, first threatening war and then announcing an end to the North Korean threat, even as Pyongyang continues to build its nuclear arsenal. His meeting with Juncker to solve the U.S.-European trade dispute was another fake resolution of a manufactured crisis. Beijing remains unconcerned about a U.S.-EU common trade policy against China: the China market is too important to European firms for them to so explicitly take sides.

## **CHINA’S PLAN**

According to my source, China is willing to play along with Trump. Beijing performed its role in the first part of his little play, retaliating against his tariffs so as to help create a sense of crisis. But Beijing did not escalate: top-level Chinese leaders maintained a courteous silence. They left the initiative with Trump.

In May, Beijing offered what is called in Chinese a “stepping-down platform,” when Vice-Premier Liu He proposed that China increase imports of U.S. products by \$200 billion by 2020. But Trump was apparently not ready for act two of his own drama and went ahead with the first batch of tariffs. Nevertheless, according to my source, the Chinese leadership still hasn’t given up hope for a resolution to the trade dispute before the 2018 midterm elections. The denouement will involve a commitment by Beijing to reduce the U.S.-Chinese trade deficit. At the moment, Beijing’s planned concessions involve greatly increasing China’s purchases of U.S. products, especially energy. But the agreement will do nothing to alter China’s strategic race to take the global lead in core new-economy technologies such as robotics, artificial intelligence, and 5G mobile networks. Trump will claim victory and Beijing will not contradict him, because the Chinese want him to stay in power.

For Beijing, the fundamental contradiction in current U.S.-Chinese relations is structural: as China continues to catch up with the United States economically and militarily, there is bound to be tension. Beijing doesn’t expect Washington to give up its dominant position without a fight and never expected smooth sailing regardless of who won the 2016 U.S. presidential election. In that sense, Chinese leaders are aware of the challenges they face in the long term. But for Chinese policymakers, the path forward should be clear: work on China’s pressing domestic problems, grow the economy, and expand China’s international influence. No amount of U.S. pressure will deter China from that course. Trump’s posturing—and his tendency to put his personal interests ahead of his country’s—has made things easier than Beijing ever dreamed they could be.

Copyright © 2018 by the Council on Foreign Relations, Inc.

All rights reserved. To request permission to distribute or reprint this article, please fill out and submit a [Permissions Request Form](#). If you plan to use this article in a coursepack or academic website, visit [Copyright Clearance Center](#) to clear permission.

**Source URL:** <https://www.foreignaffairs.com/articles/china/2018-09-28/how-trumps-policies-are-helping-china>

#### **Links**

[1] <https://www.ft.com/content/38130a72-90a4-11e8-b639-7680cedcc421>

[2] <https://www.ft.com/content/f83b20e4-8e67-11e8-9609-3d3b945e78cf>

[3] <https://www.cnn.com/2018/09/23/politics/trump-trade-war-china/index.html>

[4] <https://www.nytimes.com/2018/07/31/world/asia/xi-jinping-internal-dissent.html?hpw&rrref=world&action=click&pgtype=Homepage&module=well-region&region=bottom-well&WT.nav=bottom-well>