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Institute of South Asian Studies  
National University of Singapore  
29 Heng Mui Keng Terrace  
#08-06 (Block B)  
Singapore 119620  
Tel: (65) 6516 4239 Fax: (65) 6776 7505  
www.isas.nus.edu.sg  
http://southasiandiaspora.org



## **China and the Trump Presidency: Some implications for the world, and South Asia**

Shahid Javed Burki<sup>1</sup>

*After a quiet period that lasted for a quarter century – from the 1991 collapse of the Soviet Unions to the 2016 election of a maverick non-politician by the Americans as their 45<sup>th</sup> president – great power rivalry has reemerged on the global scene. The United States remained unchallenged by any other power ruled the waves for 25 years. As I argued in a book, *Rising Powers and Global Governance*, published in early 2017, the world was entering a period of considerable uncertainty. It did not have global institutions that could intermediate between competing powers to usher in a new world order.<sup>2</sup> The emergence*

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<sup>1</sup> Mr Shahid Javed Burki is Visiting Senior Research Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at [sjburki@gmail.com](mailto:sjburki@gmail.com). The author bears responsibility for the facts cited and opinions expressed in this paper. During a professional career spanning over half a century, Mr Burki has held a number of senior positions in Pakistan and at the World Bank. He was the Director of China Operations at the World Bank from 1987 to 1994, and the Vice President of Latin America and the Caribbean Region at the World Bank from 1994 to 1999. On leave of absence from the Bank, he was Pakistan's Finance Minister, 1996-1997.

<sup>2</sup> Shahid Javed Burki, *Rising Power and Global Governance: Changes and Challenges for the World's Nations*, New York, Palgrave Macmillan, 2017.

*of Donald Trump on the political scene added to this uncertainty. In this period of increasing confusion, the United States relations with Russia, China and with the countries in the Middle East will define the direction in which the world will go in the next decade or two.*

*The emerging great power rivalry will be consequential for the Asian continent. Even as result of President Barack Obama's "Asia pivot" policy the United States approach to the continent had split it into two groups of nations: those that were prepared to work with Washington and those that entered the China orbit. Under Trump, Russia is likely to enter the picture, working alongside the United States to contain China. This will further divide South China with India on the side of the "China containment" approach and Pakistan pulled even closer to the China orbit.*

## **The current state of the Chinese economy**

While campaigning for the presidency, Donald Trump focused a great deal of his attention and that of the people he was courting on China. He was deeply concerned about the rising economic power of China that, he was convinced, was occurring at the cost of the United States. This was the dealmaker's zero-sum way of thinking. The "Middle Kingdom" was identified as the cause of many problems Trump believed America faced at the time he sought the support of the American electorate. He threatened action against China if he were elected president and drew an enthusiastic response from the crowds that attended his rallies. Trade imbalance was seen as the main reason for anger at Beijing.

The focus on China came at a moment of transition for Beijing. The Chinese leadership was engaged in a significant restructuring of its political system. The leaders were also attempting to put in place a new development paradigm, moving their economy from providing relatively cheap manufactures for the world's rich markets to satisfying local demand, the growth of which was being encouraged by public policy. This change in emphasis needed a strong hand holding the reins of power. The country's leadership under

President Xi Jinping, elected to the office he held in 2012, was consolidating its hold over the Communist Party. The new Chinese leadership also took the decision to assert its authority over the area around its borders. It was discarding the “lower your eyes and focus all energy on developing the domestic economy” approach advocated by the supreme leader Deng Xiaoping and followed by his successors Presidents Jiang Zemin and Hu Jintao was given up by Xi. China now wanted to be recognized as a great power with strategic interests.

China’s journey in a different direction did not go smoothly; there were several hiccups. “When China’s stock market and currency both plunged last January, many global investors assumed the end was near,” wrote a team of analysts working at the newspaper *Financial Times*. Their assessment was made in a detailed story providing not one but three scenarios for China’s future. “After years of debt-fueled stimulus used to fund investment in housing, infrastructure and excess manufacturing capacity, many believed the bubble was finally bursting. It didn’t. China’s economy is expected to have met the government’s target of at least 6.5 percent growth of gross domestic product for 2016. The stock market has stabilized and is up 19 percent since its low point in late January 2016. Rising commodity prices have pulled factory-gate prices back into positive territory after more than four years of deflation. The currency has continued its decline but in an orderly fashion.”<sup>3</sup>

China watchers have predicted the bursting of the bubble ever since China’s economy began the process of take off. There was intense skepticism about the country being able to defy historical patterns of growth. No country – certainly none the size of China – was able to sustain a rate of growth of around 10 percent a year for more than a decade or, at best, two. China was able to do it for more than three decades. Between 1980 when under the leadership of Deng China began to reform its economy by reducing the hold of the state and also opening to the world outside, national product increased 32 times. Even with the

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<sup>3</sup> Gabriel Wildau, Yuan Yang and Tom Mitchell, “Economic endgame,” *Financial Times Big Read*, January 4, 2017, p. 7.

much commented upon economic slowdown that began when the world economy went into what came to be called the Great Recession of 2007-09, the rate of increase in GDP in 2016 was estimated at 6.9 percent. There was a growing consensus among serious China watchers that the endgame had been reached. The slowdown was a global concern since its effects would be felt worldwide.

The above-referred *Financial Times* review, presented three scenarios, two of which two were essentially pessimistic. According to one, China's high levels of debt will slow down the rate of growth. The country's total debt load in June 2016 was estimated at 255 percent of GDP up from 141 percent in 2008 and well above the average of 188 percent for emerging markets. According to the second the rise of "shadow banks" with bloated balance sheets to finance projects favored by local governments could trigger a system-wide crisis. Smaller banks would be especially vulnerable since, unlike bigger institutions, they are increasingly dependent on wholesale funding to support their balance sheets. The only hopeful reading of the situation – the third scenario – focused on the rapidly changing pattern of spending in the country. People with disposable incomes were using them on consumption which was giving rise to new type of manufacturing. Within a decade or two much of China's manufacturing is likely to meet domestic demand rather than the demand for cheap manufactures from consumers in rich countries. This switch has tremendous consequences for the low-wage economies in China's immediate neighborhood in both Southeast Asia and South Asia.

## **Taiwan and "One-China policy"**

Even before he was handed over the reins of power, President-elect Donald Trump began to test his approach towards world affairs. He had said during the long campaign that he would bring to bear only one concern to his dealings with the world; whether relations with other countries would serve America well. This was the "America First" Each relationship will be viewed from that angle not as one part of a grand theory. His predecessor had, over

the years developed, into what came to be called the “Obama Doctrine.”<sup>4</sup> It appeared there would be no Trump Doctrine.

During the period of transition Trump aggressively applied this approach to relations with China. On December 3, he took a call from President Tsai Ing-wen of Taiwan who congratulated him for winning the election. Initially it was viewed as a conversation with a foreign leader that took place without much forethought. Later, it became clear, that it was the outcome of a well-planned effort that involved a fair amount of background work on the part of several people in the transition team. Lobbying for Taiwan included the law firm of former Republican Senator Bob Dole “who spent months laying the groundwork for the call.”<sup>5</sup> It seemed that the president-elect was deliberately abandoning the four-decade old approach the United States had followed in its dealings with China. He hoped that by challenging China on some issues that that country considered vital, the United States would be able to get concessions in the areas that mattered for Washington.

Taiwan has been effectively independent since the Kuomintang party that ruled China until 1949 fled there after losing the Communists in the civil war. Relations between the renegade province and Beijing rested on two pillars. Both sides have since then abided by the so-called “1992 consensus” in which they agreed there was only one China but disagreed on who was the rightful representative. This pillar was built on the ground prepared two decades earlier when the Shanghai Communiqué was issued after the November 1972 talks between Chairman Mao Zedong and President Richard Nixon.<sup>6</sup> This laid down the principle of “One China” policy according to which Taiwan was a part of China and was to be treated as such. This resulted in the United States’ ending its diplomatic recognition of Taiwan in 1979. Since the signing of the Shanghai document, no president or president elect questioned the agreement. In 1982, President Ronald Reagan

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<sup>4</sup> Jeffrey Goldberg, “The Obama Doctrine: How he’s shaped the world,” *The Atlantic*, April 2016, pp. 7-90.

<sup>5</sup> Mark Landler, “Defending Taiwan call, Trump suggests U.S. Isn’t bound by longtime China policy,” *The New York Times*, December 12, 2016, p. A13.

<sup>6</sup> A highly readable account of the Nixon visit is in Margret Macmillan, *Nixon and Mao: The Week that Changed the World*, New York: Random House, 2007

pushed for the so-called Six Assurances, one of which was reaffirmation that the United States did not formally recognize Chinese sovereignty over Taiwan. However, these misgivings notwithstanding, Reagan abided by the terms of the 1979 joint communiqué that established relations between the United States and China.

After downplaying the importance of his telephone conversation with the Taiwanese president, Trump took a tougher line in a TV interview. “I don’t know why we have to be bound by one China policy unless we make a deal with China having to do with other things, including trade,” he told Fox News. He went on to mention the positions he had taken in the campaign. “I mean, look we’re being hurt very badly by China with devaluation; with taxing us heavy at the borders when we don’t tax them; with building a massive fortress in the middle of the South China Sea, which they shouldn’t be doing; and, frankly not helping us at all with North Korea.”

In dealing with China, president-elect Trump was applying the principles he had laid out in his book, *The Art of the Deal*. Any transaction must begin with the two parties laying on the table that would appear extreme and then move towards a common ground. That is what Trump seems to be doing in his many pronouncements concerning China before he formally assumed office. An editorial in *The Global Times*, a Chinese state-run newspaper, said that Mr. Trump was “like a child in his ignorance of foreign policy. The One China policy cannot be bought and sold. Trump, it seems, only understands and believes that everything has a price.” A front-page editorial in the overseas edition of the *People’s Daily*, the newspaper that speaks for the Communist Party of China, warned that “creating troubles for China-US relationship is creating troubles for the U.S. itself.” It said pointedly, that pushing China on Taiwan “would greatly reduce the chance to achieve the goal of making America great again.” Government officials in Beijing picked up on what the newspapers had editorialized. On December 12, Geng Shuang, a foreign ministry spokesman, said that “adherence to one China policy is the political bedrock for

development of [bilateral] relations. If compromised there will be nothing to discuss on cooperation in major fields.”<sup>7</sup>

## **China and the international trade order**

Up until the arrival of Donald Trump on the political scene, relation between China and the West were conducted within the frameworks provided by various international institutions and treaties. One example of this was the way the question of treating China as a “market economy” was being played out. Under the rules of the World Trade Organization – the institution China joined in 2001, an application that was supported by the United States – the countries trading with Beijing could impose punitive tariffs on “non-market economies” such as China in anti-dumping cases. A special formula was used to calculate the tariffs. This deal was set to expire on the 15<sup>th</sup> anniversary in December 2016 of China’s WTO membership. But the European Union, the United States and Japan resisted the removal of this constraint prompting China to take the first step in launching a case in the WTO. China responded after the US imposed anti-dumping tariffs on Chinese-made washing machines the import of which was valued at \$1.1 billion in 2015. Washington also launched a new anti-dumping investigation into Chinese plywood imports, which were also valued at more than \$1 billion in 2015. “China for its part is frustrated with developed countries’ apparent double standards on the market economy access and other issues important for Chinese exports.”<sup>8</sup>

If Donald Trump lives up to the threats he gave in the campaign, disputes such as these could become sharper and seriously affect the conduct of international trade and the functioning of the global economic system. By nominating a set of people known for their protectionist views and anti-China sentiments, Trump gave a strong indication that he was

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<sup>7</sup> Tom Mitchell, Yuan Yang, Lucy Hornby and Demetri Sevastopulo, “Trump faces One China policy backlash,” *Financial Times*, December 13, 2-16, p. 2.

<sup>8</sup> Shawn Donnan, Lucy Hornby, and Arthur Beesley, “Beijing challenges EU and US over market status,” *Financial Times*, December 13, 2016, p. 2.

opting for a mercantilist approach to economic policy. A couple of weeks before being ushered into office as president, Trump nominated Robert Lightizer, a lawyer who for years had likened “free trade advocates to political naïfs,” as United States Trade Representative. He will join Peter Navarro, another China hawk set to lead a new national Trade Council, Wilbur Ross, the billionaire investor and the president-elect’s pick for commerce secretary, in a triumvirate chosen to deliver on Mr. Trump’s campaign promise to of an ‘America First’ trade policy.”<sup>9</sup>

Does Donald Trump have the legal authority to slap high tariffs on imports from China as he has repeatedly promised? During George W. Bush’s presidency, a lawyer discovered an arcane bit of legislation, Section 338 of the Trade Act of 1930, that could be used by the president. “In a 1949 telegram to the US consul in Shanghai, Dean Acheson, then secretary of state, delineated possible responses to a Communist victory in China ‘should Commie commercial policy’ disappoint.”<sup>10</sup> The provision allows presidents to impose up to 50 percent on imports from countries found to discriminate against the United States.

China took note of these threats and warned that it was ready to retaliate if the Trump administration imposed new tariffs. Penny Pritzker, the outgoing US commerce secretary, told the *Financial Times* that Chinese officials had informed US counterparts after November elections that they would be forced to respond to trade measures taken by the new administration. “The Chinese leadership said to me ‘if you guys put an import duty on us we are going to do it on you,’” Ps. Pritzker said. And then they said “That will be bad for both of us.”<sup>11</sup>

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<sup>9</sup> Shwan Dannon and Sam Fleming, Tycoon’s troops prepare grounds of trade battles, *Financial Times*, January 6, 2017, p. 3.

<sup>10</sup> Ibid.

<sup>11</sup> Shawn Donnan, “Beijing warns of iti-for-tat trade war if Trump imposes tariffs on China goods,” *Financial Times*, January 7, 2017, p. 1.



## **Xi: The emergence of a strong leader**

The toughening of the approach implied by some of the earlier moves by the president-elect Trump might have an unexpected consequence: increase in the power already accumulated in his hands by President Xi Jinping. China's senior leaders may conclude that in order to handle Trump's America the country needed to be governed by a strong man. As was the case with Xi's immediate predecessors Hu Jintao and Jiang Xemin, Xi was the Communist Party's general secretary, state president, and chief of the armed forces. But he had expanded a system of "small leading groups" under his own leadership, giving them control over areas of policy that used to be the preserve of the government and the party's highest bodies. He had launched a wide-ranging anticorruption campaign that had felled many senior leaders. In all 177 persons with deputy ministerial rank or above were investigated as a part of the crackdown since Xi took office in 2012. He had more than 50 generals arrested for graft and promoted his men in their own place. This pruning in senior party and military ranks gives Xi the opportunity to change the composition of the 205-member Central Committee of the party. According to Victor Shih of the University of San Diego, California, Xi's faction currently accounts for only 6 percent of the group.<sup>12</sup>

Even before Trump began to voice his concerns about China, the Beijing leadership had begun to move on two external fronts, one in the country's east and the other in the west. Although as "Banyan" wrote in his regular weekly column for *The Economist*, "the Chinese are creatures of land, not the water, Beijing was expanding the deep-water naval base on Sanya on the southern island of Hainan.

## **The South China Sea problem**

There was some apprehension in some quarters that the open hostile position Donald Trump had taken with respect to China could end in military conflict. There were a number

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<sup>12</sup> Quoted in *The Economist*, Politics: Xi's day at the beach," August 20, 2016, p. 35.

of areas where Beijing and Washington had differences. One of the more important ones was China's activities in the Spratly islands which China calls the Nansha Islands. Parts of the archipelago are also claimed by the Philippines, Malaysia, Vietnam, Brunei and Taiwan. And the presence of oil and gas deposits has exacerbated the rivalries. On December 15, China signaled that it had installed weapons on South China Sea Islands and would use them like a "slingshot" to repel compounding threats with the incoming Trump administration. "The Chinese message, in Defense Ministry statement, suggested that China was further watering down a pledge made by its president Xi Jinping, to not militarize the islands."

The pledge was made after Xi met with President Obama when he told reporters that "China does not intend to pursue militarization" of the islands.<sup>13</sup> The United States' response to the Chinese moves came by way of a speech by Admiral Harry Harris, the commander of American forces in the Pacific. The speech was given at the Lowy Institute in Sydney and focused on the right of nations to navigate international waters and on the 1951 military alliance with Australia. The alliance called the Anzus treaty had Australia, New Zealand and the United States as signatories. In an apparent reference to anti-piracy operations in the Mediterranean in the early 19<sup>th</sup> century, the admiral reminded his listeners that the US had fought its first war following independence to ensure freedom of negotiation. "This is an enduring principle and one of the reasons our forces are ready to fight tonight. We will cooperate where we can and ready to confront where we must."<sup>14</sup>

That is "intended to project China's power far into the South China sea and to support a new archipelago of artificial islands that China has built on reefs and atolls a long way from the Chinese shores. Three of these in the Spratly islands have military-length runways, and recent satellite pictures show the construction of concrete bunkers,

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<sup>13</sup> Chris Buckley, "China sends signal on sea bases: We're armed," *The New York Times*, December 16, 2016, pp. A1 and A3.

<sup>14</sup> Jamie Smyth, "US military assures Asia-Pacific allies of support after Obama," *Financial Times*, December 15, 2016, p. 2.

presumably for fighter jets.”<sup>15</sup> China had ignored the July 2016 ruling by an international tribunal to which the Philippines had appealed China’s “indisputable claim” in the South China Sea. The tribunal dismissed China’s assertion of sovereignty over a vast area within a “nine-dash” line that encompasses nearly all of the sea. While the Philippines now under a new president had not pressed its case, the United States was troubled by China’s activities in the area. As Bill Hayton pointed in his book, *The South China Sea*, Beijing’s claim of old presence in the islands was not supported by history.<sup>16</sup> The first Chinese official to set foot on one of the Spratlys was a Nationalist officer in 1946, the year after Japan’s defeat and loss of control of the sea and two years before the Communists came to power in Beijing. Washington feared that with these military installations, Beijing would be in a position to control the movement of ships in a vital sea thoroughfare.

To its west, China had launched a number of major construction efforts to build a network of roads, railways, fiber-optic cables and gas and oil pipelines as a part of what President Xi Jinping had called the “One Belt, One Road” project. Large building programs had been initiated with Chinese help in Pakistan and Kazakhstan as parts of the project. While this activity would open the relatively less-developed parts of western China to the outside world, the development of this land-based commerce was also redefining the way Beijing wanted to make economic progress.

## **The North Korean Conundrum**

The Donald Trump presidency began with Kim Jong Un, North Korea’s erratic leader, declaring that “we have reached the final stage in preparations to test-launch an intercontinental ballistic rocket.” Such a missile, equipped with a nuclear device, could obliterate a US city. What should the United States do? This question was likely to confront

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<sup>15</sup> Banyan, “Full steam: If long standing tensions ease in the South China Sea, China will ensure they rise elsewhere,” *The Economist*, August 20, 2016, p. 34.

<sup>16</sup> Bill Hayton, *The South China Sea: The Struggle for Power in Asia*, New Haven, Yale University Press, 2014. Also see Robert D. Kaplan, *Asia’s Cauldron: The South China Sea and the End of a Stable Pacific*, New York, Random House, 2015.

the new president after he took office. There were military options such as a preemptive strike on North Korea's missile launching facilities. Or, the country's test ICBM could be shot down. But Pyongyang could retaliate by hitting its neighbor to the south. Seoul was only 30 miles south of the Demilitarized Zone. Or Washington could return tactical nuclear weapons to South Korea. These were withdrawn in 1991 by George H.W. Bush in the waning days of the Cold War. Russia responded in kind by bringing its weapons from North Korea. Then there was the China option.

In a number of tweets, president-elect had tweeted that China had let down the United States by not putting pressure on the North Korean leader to give up his military ambitions. The new America leader was being advised by some right-wing political analysts to include the Chinese approach to Pyongyang as a part of the larger deal with China. For instance, Charles Krauthammer who writes for *The Washington Post*, suggested that Trump could use both economic and strategic leverage to contain the North Korean threat. However, "the problem is that China has shown no evidence of being willing to yield a priceless strategic asset – a wholly dependent client state that acts as a permanent thorn and distraction of U.S. power in the Pacific Rim – because of mere economic pressure." If that had not worked, Krauthammer suggested, Washington could encourage Japan to develop nuclear weapons.<sup>17</sup> Trump had already talked about this as an approach to reduce the United States' commitment of huge amounts of its resources to maintain peace in East Asia.

## **Conclusion**

President-elect's evolving relations with China and Russia suggest that we may be about to witness another move by Washington aimed at reshaping the China, Russia, United States triangle that was a prominent feature of the global landscape since the end of the

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<sup>17</sup> Charles Krauthammer, "Cold war relic, present-day threat," *The Washington Post*, January 6, 2017, p. A19.

Second World War. In the 1950s, the US administration led by President Dwight Eisenhower treated the Russians significantly better than the Chinese in the effort to widen the wedge between China's Mao Zedong and Russia's Nikita Khrushchev. The United States's trade embargo was far tighter than it was against the Soviet Union; the Americans could travel to Russia but were not allowed to go to China; Washington trained Tibetan rebels to fight the Communist regime in Beijing. However, Richard Nixon redesigned the triangle by going to Beijing, meeting Mao Zedong and signing the Shanghai communiqué that supported the Chinese leader's view that the renegade province of Taiwan was a part of China. Although Henry Kissinger, Nixon's national security adviser, was the architect of the new China policy he was of the view that compared with the Russians, the "Chinese were just as dangerous. In fact, they're more dangerous over a historical period." He then told Nixon, "in 20 years your successor, if he's as wise as you, will end leaning towards the Russians against the Chinese."

John Pomfret, the author of *The Beautiful Country and the Middle Kingdom: America and China, 1776 to the Present*, asked whether under Trump, the United States will revert back to the earlier position. Could it be that, almost 45 years after Nixon's breakthrough with China, the 45<sup>th</sup> president will be taking Kissinger's advice? In fact Trump had consulted Kissinger a number of times since winning the election. President Obama tried to make a 'pivot' to Asia the capstone of his foreign policy. Will Donald Trump make a 'pivot' toward Moscow, and away from Beijing, a capstone of his?"<sup>18</sup>

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<sup>18</sup> John Pomfret, "Will Trump 'pivot' to Russia?" *The Washington Post*, December 16, 2016, p. A19. Pomfret is the author of the book, *The Beautiful Country and the Middle Kingdom: America and China, 1776 to the Present*, New York, Henry Holt and Co, 2016.