This paper asks whether Donald Trump is likely to act tough on China as he signaled during his campaign for the U.S. presidency. According to evidence presented in this paper, I argue that the Trump administration has adopted a more moderate approach after assuming power for two reasons. First, Trump did not base his past harsh rhetoric on facts; therefore, there is no foundation to support a containment strategy against China. Second, antagonizing China in economic affairs may create unintended consequences for the U.S., which may harm the U.S. domestic economy and his odds of winning a second term. In the South China Sea, however, Trump will continue with a tougher stance, but refrain from further escalation because backing down on security issues will signify his cowardice, which will generate domestic audience costs. As a result, the likelihood of starting a trade war, currency war, or military showdown in East Asia under Trump is low.
Keywords: Donald J. Trump, U.S.-China Relations, Trade Imbalance, Renminbi, China

I. Introduction

During the 2016 U.S. Presidential election campaign, the Republican candidate, Donald Trump, relentlessly criticized the U.S.-China economic relationship and China’s behavior in the South China Sea. He promised that he would slap a radically high import tariff on goods made in China, label China as a currency manipulator, win back jobs lost to China, and strengthen naval forces in East Asia. Such harsh rhetoric and intention created concern of an upcoming U.S.-China confrontation. As President-elect, Trump received a call from Taiwan President Tsai Ing-wen and found fault with the “One-China policy.” Do those behaviors signify a significant change in U.S. foreign policy toward China? Will Trump honor his campaign promises once assuming the White House?

It is too early to tell whether Trump will deal with China according to his past attitude. Nevertheless, several signs show that the Trump administration has changed from a hardline approach to a more moderate approach. This paper argues that the change results from two factors. First, Trump did not base his past criticism on reality; therefore, there is no basis to support a containment strategy against China. Second, antagonizing China in economic affairs may create unintended consequences for the U.S., which may harm its domestic economy. In the South China Sea, however, Trump will maintain a tougher stance, but refrain from further escalation because backing down on security issues will signify his cowardice, which will generate domestic audience costs. Trump would not like to see any of these consequences. Hence, the likelihood of starting a trade war, currency war, or military showdown in East Asia by Trump is low. Perhaps
Trump will publicly voice harsh rhetoric to tackle China, but, in private, the administration will resort to diplomatic channels and negotiation to settle disputes.

The next section discusses the campaign promises offered by Trump regarding the U.S.-China relationship in more detail. The third section examines whether Trump’s criticisms were supported by any evidence. Specifically, I look at the U.S.-China relationship in international trade, the value of renminbi and its effect, bilateral investment, and the South China Sea. The final section concludes the paper and offers related policy implications.

II. What Did Candidate Trump Promise?

During Trump’s presidential campaign, Trump spent considerable time bashing China. He named China as a currency manipulator and as the cause of unfair trade and unemployment in domestic manufacturing sectors. As Trump tried to signal his toughness on China, on December 12, 2016, he openly discussed a telephone conversation with Tsai Ing-wen on his twitter account, posting that “The President of Taiwan CALLED ME today to wish me congratulations on winning the Presidency. Thank you!” Confronted with criticism, he tweeted about an hour later, “Interesting how the U.S. sells Taiwan billions of dollars of military equipment but I should not accept a congratulatory call.” Calling Tsai Ing-wen “the President of Taiwan” and indicating U.S.-Taiwan relationship based on arms sales provoked an expectation that a U.S.-China clash is upcoming.

Regarding Trump’s China polices, four areas have received the most attention: the trade imbalance with China, the undervaluation of the renminbi, jobs stolen by China, and the South China Sea. For Trump, the first three issues are interconnected. He mentioned during
his economic policy speech to the Detroit Economic Club that

*At the center of my plan is trade enforcement with China. This alone could return millions of jobs into our country. China engages in illegal export subsidies, prohibited currency manipulation, and rampant theft of intellectual property. They also have no real environmental or labor protections, further undercutting American workers..... Add to that the saved jobs from cracking down on currency cheating and product dumping, and we will bring trillions of dollars in new wealth and wages back to the United States.*

In a nutshell, closing the door to China, forcing the renminbi to appreciate and changing the environment for foreign direct investment (FDI) in China will remove economic problems in the U.S. Not only China was to blame, but Trump also intended to pull America out of the Trans Pacific Partnership (TPP) and NAFTA. Trump hinted at Washington’s upcoming gesture of protectionism.

Regarding his stance on the international disputes in South China Sea, Trump tweeted on December 5, “Did China ask us if it was OK to ...... build a massive military complex in the middle of the South China Sea? I don’t think so!” In his campaign, Trump promised to discourage Beijing’s aggressiveness by bolstering the U.S. military power over the sea. Experts from across the Pacific worried that a

2. “FACT CHECK: Donald Trump Unveils His Economic Plan In Major Detroit Speech.”
full-blown U.S.-China crisis could result. Especially, China worried that Washington under Trump would pursue regional hegemony in Asia. The gesture may trigger bilateral hostility after Beijing commented on the international tribunal ruling of the sea’s sovereignty that

*If the U.S. and Japan use [the ruling] to pile military and political pressure on Beijing, Chinese people will firmly support our government to launch a tit-for-tat counterpunch ...... we trust Chinese law enforcement and military forces have been well-prepared.*

Raising the South China Sea dispute also coincided with U.S. recent efforts to counter China’s limiting freedom of navigation in the sea, which provoked Beijing and raised the possibility of a military conflict between both sides. Furthermore, Trump’s top advisor, John Bolton, launched the idea of playing the “Taiwan card” for Beijing to abandon its South China Sea bases.

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5. Options include “receiving Taiwanese diplomats officially at the State Department; upgrading the status of U.S. representation in Taipei from a private ‘institute’ to an official diplomatic mission; inviting Taiwan’s president to travel officially to America; allowing the most senior U.S. officials to visit Taiwan to transact government business; and ultimately restoring full diplomatic recognition.” See John Bolton, “The U.S. Can Play a ‘Taiwan Card,’” *The Wall Street Journal*, January 17, 2016, <https://www.wsj.com/articles/the-u-s-can-play-a-taiwan-card-1453053872>.
Judging from candidate Trump’s pre-election campaign promises, nothing seems positive to revive a constructive U.S.-China relationship. Nevertheless, once holding the office as the President of the United States, Trump’s team will have to initiate policies based on facts and needs rather than making convenient political noises. Therefore, the answer of whether Trump will honor his promises of acting tough on China may depend on how far those promises are from the facts and circumstances. The next section will discuss such distance and its implications for the Trump administration.

III. What Will President Trump Do?

This section discusses whether the empirical evidence supports Trump’s criticism of China during his campaign. It will be more likely to see the realization of Trump’s promises if his claims are occurring and are favorable to his administration. If not, then one should expect to see changes in Trump’s China policies. Below, I divide the related issues into four aspects, which are the U.S.-China relationship in the areas of international trade, foreign exchange, FDI, and the South China Sea.

1. Trade Imbalance with China

During the presidential election campaign, Trump stated on numerous occasions that open international trade with the outside world is the root cause of the U.S. economic downturn, especially the subsequent trade imbalance with Mainland China. More time is needed to prove whether Trump will launch a retaliatory trade policy against China as he has promised. Nevertheless, we can use existing data to

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provide initial evidence that shows the validity of such a claim. In Figure 1, I use scatterplots to demonstrate the possible correlation between U.S. economic growth and its relationship with export volume to and import volume from China.\textsuperscript{7} Figure 1 (A) and (B) both demonstrate that exports and imports with China have had almost no correlation with U.S. economic growth. If I cancel the two outliers of negative economic growth during the U.S. financial crisis (data of 2008 and 2009), the correlations are even weaker ($R^2=0.0912$ for exports; $R^2=0.0422$ for imports). In a nutshell, more exports to China does not seem to bring obvious contribution to U.S. domestic economic growth while more imports from China does not seem to harm the domestic economy. Or at least, tackling China alone might not make a huge difference for the U.S.

![Figure 1: U.S. Trade with China and Economic Growth (1991-2015)](image)


\textsuperscript{7} I use log-transformed indicator to proxy trade volume in order to avoid its skewed distribution.
Figure 2 shows relationship between trade with China and GDP growth by year. Results at least demonstrate that such a relationship is blurred. For example, from 2001 to 2010, volumes of exports to China and imports from China both saw enormous increases; however, GDP growth climbed in the first half of the period and dropped in the second half. A huge increase of imports from China positively correlated with the increase of GDP growth from 2001 to 2005 but the relationship turned negative from 2005 to 2009. Such phenomena have remained the same since 2010. No strong evidence here supports the negative effect of more imports with China.

![Figure 2: U.S. Trade with China and Economic Growth Annually (1991-2015)](image)

**Figure 2: U.S. Trade with China and Economic Growth Annually (1991-2015)**


From another dimension, Trump has argued that raising tariffs on China will create more domestic employment opportunities. Nevertheless, is the claim true? Figure 3 investigates the relationship between U.S. trade with China and the U.S. unemployment rate from 1991 to 2015. The correlations between trade with China and
unemployment rate are weaker ($R^2=0.1265$ for exports; $R^2=0.0483$) than with the GDP growth shown in Figure 1. Imports from China are less related to U.S. unemployment. Interestingly, from 2009 to 2015, the unemployment rate continued to drop as the U.S. imported more goods from China. The “more China imports” and “low unemployment” phenomenon was the same during the whole 1990s and the mid-2000s. Intuitively, the U.S. ironically should import more made-in-China goods, which might drive the domestic economy in other related industries or sectors.

The performance of the U.S. economy seems to correlate more with domestic economic crises, like recessions in the late 1980s and early 1990s, the dot-com bubble in the early 2000s, and the sub-prime mortgage crisis in late 2000s. When Trump makes his case against trade with China, which is always a convenient target, he needs to figure out why contradictions occur, as shown in the above figures.

Figure 3: U.S. Trade with China and Unemployment Annually (1991-2015)

Furthermore, trade retaliation against China may cause retaliation from China. For example, in 2010 when the Nobel Committee awarded Liu Xiaobo Nobel Peace Prize in Oslo, Norway, “for his long and non-violent struggle for fundamental human rights in China,” China immediately halted trade talks as retaliation against the Norwegian government. After 6 years, both governments announced that they would normalize relations in December 2016. China’s enormous commercial potential resulted in Norway’s strive for reviving trade talks with China, which will benefit the salmon industry in Norway. In addition, an opinion in the Global Times threatened that China will use a tit-for-tat strategy if Trump starts an all-out trade war against China. For example, a batch of Boeing orders will be replaced by Airbus and imports of soybean and maize from U.S. will be halted. Trump secured overwhelming support from rural voters, which may be harmed if China stops importing U.S. agricultural products.

These cases show that Trump will confront serious trouble if Beijing retaliates against Washington. As the volume of exports constitutes an important segment of GDP, as well as China being the single largest U.S. export destination outside North America, it is more likely that Trump symbolically will raise tariffs for China imports from several negligible sectors as a political show for his supporters and himself. It does not seem convincing that the Trump administration will risk a slowdown of the U.S. economy by stopping

10. Excluding Canada and Mexico, China is the largest export market for the U.S. with a trade volume of US$116 billion. Japan comes in second with US$63 billion (only 54.3% of China).
further trade talks with Beijing and launching a trade war with China. Such a policy will damage U.S. export sectors, which are important for a U.S. economic recovery. Blaming evil trade with China and subsequently triggering protectionism might obscure the real sources of U.S. economic sluggishness. That will not save the U.S. economy and Trump’s second term.

2. China as a Currency Manipulator

To examine the possibility of upcoming U.S.-China clash over the value of the renminbi, which Trump criticized strongly during his presidential campaign, one can examine whether China is a currency manipulator. If the answer is no, then it is more unlikely to see the clash happen since the policy is not supported by facts. Table 1 demonstrates the variation of the monthly effective exchange rate index calculated by Bank of International Settlements (BIS) from 2010 to 2017. The index covers 61 economies and measures the relative value of a currency to a broad basket of currencies. The index treats the exchange rate of each currency in 2010 as 100, which is the weighing base. If a country has manipulated its currency value to boost its export volume recently, the variation of the exchange rate should be very low and we may find the difference of current and past indices to be negative (depreciation compared to 2010). In fact, of the 61 currencies listed, the Chinese renminbi has varied quite significantly since 2010, and it is ranked number 9. Compared to its value in 2010, renminbi had appreciated 25.48%. Japan, which is the U.S. second largest trade deficit contributor, had depreciated its Japanese yen 20.75% compared to 2010. Germany comes the third

\[ \text{For example, the Chinese renminbi’s effective exchange rate in January 2017 is 123.4, which means that, compared to the exchange rate in 2010, the real renminbi value in January 2017 relative to a basket of currencies appreciated about 23.4%.} \]
for the deficit, and the euro has depreciated 16.16%. From this perspective, at least since 2010, China is less of a currency manipulator than other U.S. major trading partners.

Table 1: National Variation in BIS Effective Exchange Rate (2010-2017)

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Venezuela</td>
<td>298.64</td>
<td>104.36</td>
<td>1321.56</td>
<td>1217.20</td>
</tr>
<tr>
<td>2</td>
<td>Russia</td>
<td>12.92</td>
<td>96.74</td>
<td>90.30</td>
<td>-6.44</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>12.73</td>
<td>96.77</td>
<td>76.02</td>
<td>-20.75</td>
</tr>
<tr>
<td>4</td>
<td>South Africa</td>
<td>11.57</td>
<td>95.48</td>
<td>79.94</td>
<td>-15.54</td>
</tr>
<tr>
<td>5</td>
<td>Colombia</td>
<td>11.45</td>
<td>94.57</td>
<td>79.35</td>
<td>-15.22</td>
</tr>
<tr>
<td>6</td>
<td>Iceland</td>
<td>11.37</td>
<td>92.61</td>
<td>141.22</td>
<td>48.61</td>
</tr>
<tr>
<td>7</td>
<td>Brazil</td>
<td>11.27</td>
<td>96.50</td>
<td>87.71</td>
<td>-8.79</td>
</tr>
<tr>
<td>8</td>
<td>Argentina</td>
<td>11.15</td>
<td>98.84</td>
<td>71.82</td>
<td>-27.02</td>
</tr>
<tr>
<td>9</td>
<td>China</td>
<td>10.56</td>
<td>97.96</td>
<td>123.44</td>
<td>25.48</td>
</tr>
<tr>
<td>10</td>
<td>Hong Kong</td>
<td>9.57</td>
<td>100.97</td>
<td>125.13</td>
<td>24.16</td>
</tr>
</tbody>
</table>


Looking at the renminbi’s value only relative to U.S. dollars, rather than a basket of currencies, one can use the Big Mac Index invented by The Economist magazine to observe the variation. The index measures the expected long-run exchange rate based on the theory of purchasing-power parity. Figure 4 shows that, in the late 1990s, the Chinese renminbi was ranked the most undervalued currency against the U.S. dollar by about 50%. In the 2010s, the renminbi has corrected the problem slightly, and it ranks 16 out of 56 most-undervalued currencies. Controlling for development level, where poorer countries’ cheaper labor force reduces the cost of producing a Big Mac, the adjusted index showed that the renminbi is undervalued only by 6.5% relative to the U.S. dollar and ranked 24 out of 49 most-undervalued currencies. The Japanese yen (19.9%) of the adjusted

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index) is more undervalued than the renminbi. The index demonstrates that it was legitimate to call China a currency manipulator before 2010. Since then, however, calling the renminbi the single most manipulated currency may be wrong. The Chinese government has in fact spent a great part of its foreign reserves to appreciate the value of renminbi. The Trump administration will soon realize the fact and adjust its hawkish rhetoric accordingly.

![Figure 4: China’s Big Mac Index and the Adjusted Index](image)

**Figure 4: China’s Big Mac Index and the Adjusted Index**

Sources: The Economist, “The Big Mac Index.”

Note: 1. Based on the index, the number of Y axis is calculated as renminbi’s expected under(−)/over(+) valuation against the U.S. dollar.
2. The number of global ranking of undervaluation against the U.S. dollar is shown in parentheses. There are 43 sample countries in the Big Mac Index from 2007 to 2010, about 57 samples from 2011 to 2017, and 49 samples for the adjusted index.

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In addition to the currency value, one should ask if the low value of the renminbi indeed has caused the widening U.S.-China trade imbalance. If Trump’s criticism is true, U.S. imports from China should negatively correlate with the value of the renminbi because surging imports from China were a result of an undervalued renminbi; the appreciating renminbi will discourage a shopping spree of China-made products. Figure 5 shows that the volume of U.S. imports from China has been rising continuously since the early 1990s. This does not seem to correlate with the value of the renminbi, which has varied more widely. Since July 2005, when the renminbi dropped its peg of 8.28 RMB/USD, the currency has kept rising as the U.S. also continuously has increased its import volume. The possible negative relationship Trump criticized does not seem to exist.

**Figure 5: Annual Effective Exchange Rate and U.S. Imports from China (1994-2016)**

Using monthly (2011 to 2016) and annual (1994 to 2016) effective exchange rate data, Figure 6 illustrates that, if any relationship between U.S. import volume from China and the value of renminbi had ever existed, the evidence here ironically provides stronger support for a positive relationship over the past 7 or 23 years. If we look at a longer period of time, as shown in Figure 6 (B), the positive correlation is actually quite strong. Contrary to Trump’s accusation, the result suggests that, as the renminbi has appreciated, the U.S. has imported more goods from China. At least, one should doubt the validity of Trump’s critical take on the renminbi, which may not be the sole solution for correcting the U.S. global trade imbalance. The story is more complicated than listing China as the scapegoat.

**Figure 6: Renminbi Effective Exchange Rate and U.S. Imports Growth from China (2010-2016)**

Sources: Bank of International Settlements, “Effective exchange rate indices”; The U.S. Census Bureau, “Trade in Goods with China.”

Note: (A) and (B) plot monthly data from January 2011 to December 2016 and annual data from 1994 to 2016, respectively.

Numerous comments also have pointed out the exact same mistake that Trump has made when he harshly pointed his finger at the renminbi. Perhaps his team successfully persuaded Trump to

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14 For example, see John Authers, “Where Trump is Right and Wrong on the
give up his harsh criticism without supporting evidence or accepted the argument by many economists that the renminbi right now is in fact overvalued.\textsuperscript{15} Washington has remained silent on the renminbi since Trump assumed office in January 2017. The President of the United States did not do as he promised in his “100-day action plan to Make America Great Again,” which claimed that “on the first day of my term of office ...... I will direct the Secretary of the Treasury to label China a currency manipulator.”\textsuperscript{16} The new U.S. Treasury Secretary, Steven Mnuchin, assumed office on February 13, 2017. Rather than pointing the finger at China, Mnuchin made several phone calls to his Chinese counterparts and “commended Vice Premier Wang Yang for the critical role that he has played as a partner in managing the bilateral economic relationship and expressed his desire to work closely together.” He also looked forward to fostering strong U.S.-China engagement during his tenure.\textsuperscript{17} This should not be the


\textsuperscript{17} U.S. Department of the Treasury, “Readout from a Treasury Spokesperson of Secretary Mnuchin’s Call with Chinese Counterparts,” February 17, 2017,
statement if Mnuchin is preparing to label China a currency manipulator. Clearly, Trump’s China policy, at least in dealing with the renminbi, has changed since candidate Trump became the President. Without any supporting evidence, as well as U.S. Treasury Secretary’s positive gesture, it is unlikely for Washington to clash with Beijing over the value of renminbi.

3. Retaking Jobs Lost to China

In his campaign, Trump promised to bring millions of manufacturing jobs back to the country from China.\(^{18}\) China always has been the target to blame for U.S. outsourcing too many jobs to cheaper Chinese labor forces. Should such claim stand, one should observe a clear positive relationship between U.S. manufacturing investment in China and its unemployment rate, *i.e.* more investments cause higher unemployment. Interestingly, Figure 7 illustrates that there is nearly no relationship between U.S. manufacturing investments in China and its domestic unemployment. The *R\(^2\)* approaches zero. In 2015 when U.S. invested the most with US$5.8 billion in manufacturing sectors in China, the unemployment rate has been below the average since 1991.

Figure 7: U.S. Manufacturing FDI in China and Unemployment (1991-2015)


From a time-series perspective, Figure 8 further shows that the relationship between outsourcing China and unemployment is very weak, if not negative. For example, from 1992 to 2000, when the U.S. experienced a decreased unemployment rate, the country also was expanding its outward FDI in manufacturing sectors in China. The situation looks the same after 2011, when the U.S. recovered from its sub-prime mortgage crisis. In sum, the evidence presented here does not support the argument that outsourcing to China is the one of the main reasons for difficulties in the U.S. labor market. Beijing also sarcastically welcomed Trump’s policy of bringing back
jobs lost to China. The Global Times comments that if Apple indeed move its manufacturing center back to the U.S., the costs and the subsequent retail prices of Apple products will also rise, which will make Huawei and Xiaomi more competitive and steal Apple’s smartphone market.19

![Figure 8: U.S. Manufacturing FDI in China and Unemployment Annually (1991-2015)](image)

**Figure 8: U.S. Manufacturing FDI in China and Unemployment Annually (1991-2015)**


Furthermore, if one looks at U.S.-China bilateral investment data, the U.S. might have relied more on foreign investments coming from China than the other way around, according to the annual

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statistics from the Chinese side. As Figure 9 shows, in 2011, U.S. investment in China was about US$0.6 billion more than China investment in the U.S. Nevertheless, in 2015, the volume of Chinese investment in the U.S. surpassed U.S. investment in China. The importance of U.S. share of global FDI in China has been declining while the share of Chinese investment in the U.S. as a percentage of total Chinese overseas investments has been climbing.

![Figure 9: U.S.-China Bilateral Investment](image)

**Figure 9: U.S.-China Bilateral Investment**


Even if I use data from the U.S. Department of Commerce, the

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20 In order to compare the both countries’ inflow and outflow of FDI from each other, I use China’s data here to control for possible discrepancy resulting from using different data sets. The data here may show difference compared to the data from U.S. Department of Commerce.
trend remains similar, albeit less surprising. According to the data, the U.S. had in fact divested US$1.7 billion in China in 2011 (mostly from the information sector) while China invested US$1.1 billion in the U.S. In 2015, China invested US$5.1 billion, about 4.6 times more than in 2011, while the U.S. invested US$7.3 billion in China. The evidence here does not intend to exaggerate the relative importance of China’s financial support to the U.S., but the balance of U.S.-China bilateral investment may have silently changed to the advantage of China. Since U.S. investment accounts for less than 2% (even less in manufacturing sectors) for China, I expect China to feel less threatened if U.S. companies pull their investments back home.

Regardless of whether U.S. divestment will become a threat to China or not, the U.S. cannot afford to lose China as a stable investment partner, especially in high-tech industries. For example, Mark Zuckerberg, Facebook’s chief executive, has strived to land this social network website in China. Not only did he cultivate relationships with several leaders in China, along with learning and speaking Chinese in Beijing, but the company allegedly also has developed software to accommodate China’s internet censorship once Facebook gets the license to run in China.21 Google, having closed its local branch and website in China in 2010, is trying to reenter China for reaching more internet users and expand its android applications. In doing so, the company finds itself with the necessity of accommodating local censorship.22

Aside from companies that crave the Chinese market, several of Trump’s aides and family members have business interests in China, which can only make the administration more cautious about business interests in China. For example, Anthony Scaramucci, Assistant to President Donald Trump and Director of the White House Office of Public Liaison and Intergovernmental Affairs, announced in January 2017 that he had sold his investment firm, SkyBridge Capital, to a Chinese conglomerate. This not only shows his possible involvement with interests in China, but also that, when U.S. companies are in trouble, investment from China pays the check. Trump’s senior advisor to the President and son-in-law, Jared Kushner, was also the owner of Kushner Companies, a real estate holding and development company that pursued a joint venture with a Chinese company. Although he resigned as CEO of the company, others still worry that the company can be misused by others as a tool to influence Washington’s China policy.

Last, although Washington had voiced its concerns before the founding of the Asian Infrastructure Investment Bank (AIIB) and dissuaded its European friends to participate, half of the members

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of the European Union, led by the UK, Germany, and France, had joined the bank as founding members. Not only did Europe seek more shares in business opportunities in China, they also looked for China’s help for getting into other lucrative markets in Asian developing countries. The U.S. is confronted with similar development problems as its European counterparts, which need to explore more business cooperation from the developing world. To realize this, China looks more like a cunning partner for Trump to make use of rather than an enemy to bash. Consequently, Trump’s China-bashing rhetoric against doing businesses with China does not seem legitimate. One instead should expect the Trump administration to scale back its hawkish economic policy to China for two reasons. First, it is simply not the answer for the U.S. economy. Second, both the administration and the country currently are seeking more business opportunities in and from China that may bring in more funds and subsequently create more jobs in the U.S.

4. Escalation in the South China Sea

During the campaign, Trump promised to bolster the U.S. military in the South China Sea, and Beijing revealed the intention for a tit-for-tat countering strategy. Trump might be wrong about the U.S.-China economic relationship, but the accusation against China’s South China Sea policy seems valid. For example, China has constructed large artificial islands, built military facilities, and engaged in minor conflicts with fishing boats from other claimant countries. Although

Washington expected China to comply with the international tribunal ruling in 2016 brought by the Philippines, which dismissed China’s claim on sovereignty and natural resources in South China Sea based on the “Nine-Dash Line,” Beijing signified a strong sense of refusal but refrained from provocative behaviors. The U.S. State Department spokesman at the time, John Kirby, said that this is the case for the world to test whether China is the global “responsible power that it professes itself to be.”

Trump also sent a signal of rapport to the Philippines President, Rodrigo Duterte, when he told Duterte that his controversial fight against drugs is “the right way.” Duterte called Trump’s inauguration ceremony “a very superb ritual” and mentioned that “Trump was talking from the heart, a very frank person”; he looks forward to renewed U.S.-Philippine relationship under the Trump administration. Washington will need cooperation from Manila to tame China’s assertiveness in the South China Sea.

In February 2017, the strike group of a U.S. naval aircraft carrier, USS Carl Vinson, started to patrol in the South China Sea. This is the first time in Trump’s presidency. The strike group’s commander said the training will demonstrate “capabilities while building upon existing strong relationships with our allies, partners and friends in the Indo-Asia-Pacific region,” China’s foreign ministry warned that the U.S. was challenging its sovereignty in the South

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China Sea. One day before the U.S. patrol, China closed up its own military exercise. Assertive gestures from both sides have caused concerns that the South China Sea will turn into a major flashpoint under Trump. Will this happen, at least in the short-term?

It is too early to see what the Trump administration will do about the disputes in the South China Sea. Nevertheless, Trump may not act as tough as he spoke during the campaign. John Bolton, former U.S. ambassador to the United Nations and Trump’s foreign policy advisor, was one of Trump’s pocket candidates for Secretary of State and National Security Advisor. He is known for urging the U.S. to revisit the “One-China Policy” by raising the U.S.-Taiwan military relationship, which includes increasing military sales to and stationing military personnel and assets in Taiwan, in order to counter China’s assertiveness in places like the South China Sea. If Bolton takes either position, it will become a strong signal to China that Trump will engage East Asia and try to counter-balance China’s power in the region. In February, Trump appointed Rex Tillerson as U.S. Secretary of State and Lt. Gen. H. R. McMaster as his National Security Advisor. Tillerson successfully intervened in Trump’s China policy and persuaded the president to re-commit to the “One-China Policy.” He will play a moderating role in dealing with China. General McMaster is considered not likely to reverse the “One-China Policy.” His China view looks more moderate than his predecessor Michael Tostevin, “U.S. Carrier Group Patrols in Tense South China Sea,” Reuters, February 18, 2017, <http://www.reuters.com/article/us-southchinasea-china-usa-idUSKBN15Y010>.


Flynn or John Bolton. Using moderate figures in both positions important to the U.S.-China power game in the South China Sea may indicate Trump’s intention to reassure Beijing that no further escalation of disputes in the region between both sides will be likely.

For Beijing, full confrontation with Washington and its Southeast Asian counterparts in the South China Sea looks more unlikely. First, there is still a large gap of power between the U.S. and China. A recent study shows that China remains at a much lower technological level than the U.S. The U.S. military advantage is significantly greater than China compared with other historical cases because it is harder than in the past to convert economic capacity to military capacity. China still has a long way to go from a great power to a superpower. All these show that conflict with the U.S. in the South China Sea will not give China a clear advantage. Second, Indonesia, Malaysia, and Vietnam stand together with the Philippines for the South China Sea Arbitration. China’s aggressive behavior in the sea will create serious concerns for ASEAN countries, which have long worried about China’s land reclamation activities. Opening another front with its ASEAN neighbors that the Trump administration seeks to please may cause more trouble for Beijing in the region. As a result, full-blown conflict in the South China Sea is not likely in the upcoming future, but perhaps we will see more joint military exercises and diplomatic efforts for testing the bottom line of each concerned party, in part to reflect the changing alliance structure in the region.


IV. Conclusion and Implications

The empirical analysis above demonstrates weak evidence for Trump’s accusation of China’s foreign economic policy and his divergent intentions of how to deal with China before and after assuming the White House. Clearly, compared with his campaign promises in other areas, foreign policy toward China has seen a significant change. Foreign economic policy is a double-edged sword, which always causes collateral damage if not executed carefully. Starting a trade war or a currency war with China will also harm U.S. interests and the economy in other areas. President Trump has come to realize this and has started displaying a more moderate attitude toward China recently.

In the U.S.-China trade relationship, perhaps Washington will symbolically file a few cases against Beijing to the World Trade Organization for settlement, but slapping radical 45% tariff on Chinese imports does not seem likely. Listing China as a currency manipulator is less likely because the renminbi has appreciated recently, which even has resulted in pressure for depreciation. Initiating radical policies for retaking jobs lost to China also is not likely because that will raise costs for U.S. companies, which on the one hand will reduce their profits and on the other hand will make their products less competitive in the global market. Developing a bitter bilateral investment relationship will further disadvantage those who seek a bigger share in China’s market. China is no longer merely the world biggest factory, but also has become a fast-growing consumer market. Perhaps a few assembly lines will move back to the U.S., but that will only happen when the required expertise resides in the U.S. or the manufacturing costs do not change much in both countries. Forcing multinational companies back to the U.S. at the expense of companies’ profits and global competitiveness does not fit into the spirit of U.S.
capitalism and Trump’s businessman-like character.

In Trump’s security policy in the South China Sea, the situation slightly differs from economic policy. They are similar in the way that Trump has moderated the confrontational gesture after assuming power. They are different in that acting tough and then backing down in a foreign policy crisis will generate higher domestic political costs for Trump. Since being tough in the South China Sea will cause less China-involved economic benefits, Trump will continue to put pressure on China by sending more military patrols and drawing in forces from Southeast Asian counterparts. Diplomatically, critical rhetoric from Trump should be expected and the administration will make further diplomatic efforts in forging alliances with Southeast Asian countries. Nevertheless, further escalation of conflict is not likely to happen.

How will China react to the change in Trump’s China policy? An interesting study recently by Miura and Chen Weiss discussed the relationship between the U.S. election and China’s policy toward the new administration. They discovered that China’s reaction depends on whether the campaign rhetoric was consistent with other indicators of the candidate’s intention. Beijing will be more likely to take a “wait-and-see” approach if the campaign rhetoric contradicts with other indicators. Clearly, Trump’s stance on China was inconsistent with either the reality or his earlier positions. In the short-term, at

least, China will refrain from containing the U.S. and will wait cautiously for Trump to settle his administration.

As for Taiwan, although it looked optimistic to see Trump receiving a phone call from Tsai Ing-wen as the President of Taiwan, as well as his playing down the “One-China policy” before assuming office, Trump has revised his policies toward China. Taipei, however, can seek further cooperation with Washington on the issue of South China Sea in exchange of further diplomatic and military relationship. As the likelihood for Trump to fully back down in the South China Sea remains low, this can be a promising but still an underdeveloped area for the evolving U.S.-Taiwan bilateral relationship.
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