WASHINGTON AND THE WORLD

'That Would Give Trump Pause': How to Game Out the Next Trade War

Trump vs. Xi: Who will win?

Illustration by Claudine Hellmuth/POLITICO (source images via Getty and AP)

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Donald Trump launched a two-year trade war against China during his first term in the White House, and he's poised to do it again.

Even before being sworn in, Trump threatened China with 60 percent tariffs to cut its trade surplus, 10 percent tariffs if it didn't halt fentanyl shipments and 100 percent tariffs if it tried to create a rival currency to the dollar. On his second day in office, he announced the first wave of tariffs would hit China on Feb. 1.

Of course, this may be bluster or a negotiating tactic. But with Trump you never know, which makes his tariff threats that much more effective. During the first trade war, he deployed tariffs on a scale not seen since the 1930s to try to get China to bend to his will and China replied in kind. U.S. tariff rates on Chinese goods rose six-fold to 19.3 percent, while Chinese tariff rates on U.S. goods nearly tripled to 21.1 percent, all of which shook markets, hurt U.S. companies that depended on those imports and lifted inflation somewhat.

The clash ended in an inconclusive Phase One trade deal, where China made some regulatory changes in agriculture and finance but didn't come close to buying the vast amounts of U.S. goods it pledged to purchase. Trump wanted a Phase Two deal where China would agree to more dramatic changes. But whatever hope there was for that — and it was slight — died when the two nations locked down during the pandemic and accused each other of releasing the coronavirus.

During the trade war, I was based in Washington for the *Wall Street Journal*. Along with my colleague Lingling Wei, then based in Beijing, we covered the confrontation intensively and wrote a book about it, "Superpower Showdown."

Here are the key dynamics that drove the last trade war and will shape the next one. Some of what lies ahead will play out differently than the last trade war, but some of the moves will come straight out of Trump and Xi's earlier playbook.

The "Great Man Theory" Will Shape the Jousting

It's long been debated by historians: Does the man (or woman) make the moment or does the moment make the man? To Donald Trump, who has plastered his name on everything from skyscrapers to water bottles to a university, it's no mystery. He sees international relations as a fight among powerful leaders, who he can move through flattery and threats.

During the first trade war, Chinese President Xi Jinping got the full Trump treatment. Shortly after being inaugurated, Trump hosted Xi at his Mar-a-Lago estate where they talked for hours over meals. As the two ate chocolate cake, Trump launched 59 missiles at targets in Syria in retaliation for a gas attack there, a reminder to Xi of American power.

At the same time, Trump gave strict instructions to his advisers not to single out China when it came to tariff strategy, and he would flatter Xi as a friend to try to make it easier for Xi to compromise.

Trump's advisers also listened to advice from Henry Kissinger about capitalizing on unpredictability. "Don't make them not nervous because that could be a strategic advantage for President Trump," Kissinger advised Trump's son-in-law Jared Kushner.

For Xi, a true-blue Marxist, it should have been a no-brainer that underlying economic forces mold leaders, not the opposite. But he also saw himself as someone who shapes history, or what he called his "China dream" of national rejuvenation. For decades the U.S. had helped realize that dream by opening its markets to Chinese goods, and he didn't want to screw that up.

Cargo ships berth at a Qingdao port in China's eastern Shandong province. President Donald Trump gave strict instructions to his advisers not to single out China when it came to tariff strategy, and he would flatter Chinese President Xi Jinping as a friend to try to make it easier for Xi to compromise. | STR/AFP via Getty

"We have a thousand reasons to get the China-U.S. relationship right and not one reason to spoil it," Xi told Trump during their Mar-a-Lago meeting.

Eight years later, and the dynamics around each leader have shifted somewhat. Most notably, both are more entrenched now, with each having consolidated power.

Unlike the 2016 election, Trump won the popular vote this time and is stocking his government with officials who understand how he operates.

As a first move, Trump invited Xi to his inauguration, putting China's leader in an impossible position. If Xi said yes, he looked weak; if he said no, he looked hostile. "It's a classic move in how Trump deals with rivals," says Matt Turpin, a China expert who served in Trump's first National Security Council. Xi ultimately stayed home but sent his vice president in his stead.

In Beijing, Xi has used an anti-corruption campaign to purge rivals and has stacked the ruling Politburo Standing Committee with his friends. In 2023, he started his third term as president, shattering a two-term custom. And when he looks for foreign leaders who can help realize his China dream, he turns now to Russia's Vladimir Putin, who he has personally met more than 40 times. He's less reliant on the U.S.

Xi is also fond of a different adage these days about the U.S.: "The East is rising; the West is declining."

The bottom line is both Trump and Xi may be far less likely to back down now.

The Real Battle in the Trade War Will Be Over Tech

Trump, as he likes to remind us, is a "tariff man." It's essential to his political identity and has been for decades. During his first administration, Trump's main demand of China was to buy more American goods and reduce its then $375 billion trade surplus with the U.S.

But his national security advisers actually focused much more on keeping the U.S. ahead of China technologically. The result was a mishmash of goals.

State Department and National Security Council officials lobbied allied governments to reject Huawei Technologies Co. gear for their next-generation 5G telecom networks and pressed U.S. chipmakers to slash sales to China.

For Trump, though, these tech goals were secondary to purchases. Trump intervened to stop the Commerce Department from crippling another big Chinese telecom company, ZTE Corp., through a ban on ZTE buying U.S.-made components. Saving ZTE could give him a bargaining chip to use in the trade talks, he figured.

As for Huawei, Trump only approved the NSC's hardline approach because he was angry at Xi for backing out of a preliminary trade deal a year later.

"With Trump, it makes sense to seize on the low moments and come in with a stack of papers that advance your goals," said a senior U.S. security official in the first administration.

For Xi, technology was always the focus.

U.S. Trade Representative Robert Lighthizer speaks during a cabinet meeting at the White House on May 19, 2020. During his first administration, Trump's main demand of China was to buy more American goods and reduce its then $375 billion trade surplus with the U.S. | Alex Wong/Getty Images

Chinese negotiators regularly offered to buy more U.S. goods as Trump wanted. But China had grand technology plans, which it refused to change no matter the tariff hit. A 2015 Chinese report, called "Made in China 2025," laid out Beijing's strategy to become a leader in 10 important tech sectors. For that, China needed a trade deal that would assure continued access to U.S. technology.

Xi also wanted to continue to wall off important domestic tech markets. Chinese negotiators, for instance, refused to lift restrictions on U.S. cloud computing, giving Alibaba and other Chinese firms a protected home base.

Ahead of the next trade war, the technology battle has only intensified.

Over time, the Trump administration began to block exports of advanced semiconductors and other leading-edge technology to China. The Biden administration expanded that effort and ended its tenure with a flurry of measures designed to keep China a step behind technologically. The administration also recruited allies to coordinate tactics.

But it's far from clear whether Trump's buy-more focus has changed. Although his first administration had labeled Chinese-owned TikTok a security risk because user data could wind up in Beijing, he made an about-face during the 2024 campaign and issued an executive order on his first day in office to delay a ban on the social media platform. He also has talked of allowing Chinese EV companies to open factories in the U.S., despite a Biden proposal that could ban Chinese EVs because of data concerns similar to TikTok.

For its part, China has sought to reduce its dependence on foreign technology by investing in advanced research and massive subsidies for tech industries. As a percentage of GDP, China spent 12 times as much as the U.S. on subsidies in 2019, estimated Scott Kennedy, a China scholar at the Center for Strategic and International Studies.

In Trade War II, expect China to try to appease Trump with purchases — and for Trump's advisers to try to keep him from settling for that.

Trump and Xi Have Different Bottom Lines

Trump's main goal is clear. He sees persistent trade surpluses with the U.S. as proof the U.S. is getting ripped off. Tariffs are his tool to reduce those surpluses, whether with China, Mexico, the European Union or India.

In 2024 congressional testimony, Jamieson Greer, Trump's new choice for U.S. Trade Representative, celebrated the Phase One deal by noting that the U.S. trade deficit with China in 2023 had fallen 25 percent from Trump's first year in office. But, of course, he failed to mention that the United States' overall trade deficit expanded by one-third during that time as other countries filled the gap left by China.

For Xi, the bottom line is also simple: no fundamental changes in the Chinese economic system. Xi was willing to approve a Phase One agreement that left in place tariffs on three-quarters of everything China sold to the U.S. because the deal didn't require China to scrap policies Xi believed made China richer. Those include massive subsidies, expansion of state-owned businesses and exports at prices that bankrupt foreign competitors.

Trump's target remains the trade deficit as he starts his second term. Along with 60 percent tariffs on China, he is proposing 10 percent or 20 percent tariffs on everyone else. He looks at tariffs as a kind of entry fee into the world's largest consumer market, which he can waive if governments make concessions he wants.

But there are splits among his advisers about how to translate his ideas into policy. Greer, the trade rep nominee, favors "strategic decoupling" from China which would include vastly increasing tariffs. Scott Bessent, Trump's Treasury secretary nominee, has talked about a grand deal involving China and other trading partners he calls a "Mar-a-Lago accord." Steve Bannon, Trump's one-time chief adviser, is pushing a tougher version of the Phase One deal. And who knows what Tesla CEO Elon Musk, who has become a top Trump adviser, will be advising Trump, given his deep business ties in China.

Trump hasn't committed to any of these plans. His first batch of executive orders calls for a host of studies that will take months to complete and will surely become a way for advisers to promote different positions.

"President Trump will work quickly to fix and restore an economy that puts American workers first by re-shoring American jobs," says his press secretary, Karoline Leavitt. Make of that what you will.

On the China side, Xi is more committed than ever to a state-led model of development that focuses on technology and exports. That makes him more vulnerable in a trade war because tariffs can hobble export-led growth. He has tried to insulate China from new U.S. tariffs by signing free-trade deals with Asian nations, but no market is large enough to replace the U.S.

Ultimately, here we should expect a repeat of the last trade war: Trump's advisers squabbling over the administration's goals, while China remains steadfast in rejecting change.

Key Guardrails May Constrain Both Leaders

During the trade war in Trump's first term, both sides had guardrails that kept the battle from spinning out of control. For Trump, the stock market provided discipline.

When markets continued to rise after the U.S. first imposed tariffs in July 2018, he took that as a vote of confidence. When they started to tank later in the year as companies worried about the impact of tariffs, National Economic Council Director Larry Kudlow went on Fox to reassure investors that the president "may perhaps" meet with Xi at a G-20 meeting in Buenos Aires in early December, hinting that might ease the trade war.

After the two leaders met, Trump tweeted Dec. 4 that a deal could happen, but then he added this reminder: "But if not, remember I am a Tariff Man." And with that tweet, the Dow Jones Industrial Average dropped 800 points, and the S&P fell 3.2 percent — the second biggest drop of the year. Shortly before the year came to a close, Trump looked to bump up the market by tweeting that he and Xi were again negotiating for a deal. On the next trading day, the Dow advanced 265 points.

Trump and Xi shake hands during dinner at the Mar-a-Lago estate in West Palm Beach, Florida, on April 6, 2017. During the trade war in Trump's first term, both sides had guardrails that kept the battle from spinning out of control. | Jim Watson/AFP via Getty

"What are the benchmarks for success of the presidency?" Trump's first NEC director, Gary Cohn, asked in a radio interview in March 2019. "The stock market is the most obvious, most transparent, most-talked-about-by-the-president benchmark of success."

The Chinese government isn't nearly as transparent as America's but it's possible to glean Xi's guardrails from his actions. Throughout the trade war, Xi worried about frightening away the foreign investment crucial for Chinese growth. While he matched Trump tit-for-tat with tariffs, he never used all the muscle he could, such as blocking the sales and production in China of big-name American firms like Apple or General Motors.

Fast forward to 2025, and the stock market remains pivotal to Trump; what's changed, though, is the market is now much easier for China to influence. The top seven companies in the S&P 500 now account for 28 percent of the index's weight, about twice as much as in 2017. A number of those firms, including Apple, Tesla and Nvidia, are deeply dependent on China for profits.

"If China threatens a handful of very big American companies and the stock market falls, that would give Trump pause," says Derek Scissors, a China analyst at the American Enterprise Institute.

Still, taking such steps would be risky for Xi. In 2017, the Chinese economy was growing nearly 7 percent and foreign investment was increasing. Now China's growth has fallen to less than 5 percent, its real estate sector has crashed, government debt is increasing and demand and supply are so out of whack that deflation threatens. Foreign investment fell to a 30-year low in 2023 and continued to decline the first half of 2024.

The last thing Xi needs is to further frighten off foreign firms by ham-handed tactics. And his moves so far seem intended more for show than impact.

He has sanctioned U.S. defense companies from doing business in China and moved to cut off mineral supplies needed to make computer chips and other cutting-edge technology. But military contractors hardly depend on China for sales or supplies, and U.S. tech companies generally don't buy minerals directly from China. Rather, foreign electronics firms buy the stuff to turn into components they then sell to U.S. buyers.

"Xi Jinping's standing depends on how people feel about the economy," says a U.S. business executive who frequently travels to China and who was granted anonymity to speak candidly. "In the same way the stock market is guardrail for Trump, the growth rate is guardrail for Xi."

It's a reminder that even as both Trump and Xi are more emboldened than ever politically, the rules of the global economy don't bend easily. The trade war is almost certainly coming. The question is how damaging will it be.

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