

## China's Geopolitical Posturing for a Second Trump Term

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*Donald Trump and Xi Jinping meet on the sidelines of the G20 summit, Osaka, in June 2019. (Photo: AP/Susan Walsh)*

### Overview

- Beijing is proactively buffering its economy and securing its interests by leveraging global trade and investments in anticipation of an increasingly confrontational U.S.-China relationship under President-elect Trump. These measures focus especially on improving relations with key trade partners, highlighting Beijing's fluid use of economic means to achieve geopolitical ends. This increasingly proactive stance is a significant departure from the "wait and see" posture Beijing adopted prior to the U.S. election, and it will likely create pan-regional ripple effects with major implications for business.
- Even before the prospect of a second Trump term, China had a long track record of leveraging economic inducements and coercion to assert its geopolitical stance. In 2017, for example, Beijing boycotted South Korean goods after Seoul consented to hosting U.S. THAAD missile systems. In 2010, it



sanctioned Norwegian salmon after Chinese dissident Liu Xiaobo won the Nobel Peace Prize. That same year, China banned mineral exports to Japan to protest an incident between the Japanese Coast Guard and a Chinese trawler in the East China Sea.

- **As U.S.–China ties become increasingly strained, China could even more vigorously leverage economic tools to secure its strategic interests.** Many of its current efforts are outward facing, aimed at mending diplomatic rifts, boosting China’s position on the global stage, and expanding avenues of overseas economic and security cooperation – especially with the Global South.
- **Looking ahead, multinational firms should prepare for a China that is more resourceful, resilient, and assertive with both carrots and sticks than it was during Trump’s first term.** The main challenges posed by China’s global outreach efforts include greater market access for Chinese competitors; growing greenfield investment for Chinese fabs in Southeast Asia, Latin America, and Eastern Europe aimed at skirting U.S. and EU tariffs, and Beijing’s continued pursuit of export-oriented growth, enabled by willing trade partners.

## Redoubling Diplomatic Efforts

In anticipation of the uncertainties of Trump’s transactional approach to U.S.–China relations, Beijing has tried to warm diplomatic relationships and smooth over trade disputes with non-U.S. trade partners. Chinese policymakers hope that by heightening diplomatic engagement with other countries, they can counterbalance the expected turbulence in U.S.–China relations and drive a wedge between the United States and its allies. This approach has so far included several prongs:

- **Easing tensions, especially with U.S. allies:** Beijing recently adopted a more conciliatory approach to resolving tensions with the UK over the repression of Hong Kong protestors and with Australia after the last administration called for a global investigation into the origins of Covid-19. In December 2024, China lifted its remaining ban on Australian beef, finally ending longstanding prohibitions on Australian red meat, lobsters, grain, and wine. Meanwhile, Japan in November committed to launching the Japan–China Export Control Dialogue. Both countries also agreed to resume the Japan–China High–Level Economic Dialogue, which has not convened since before the pandemic.
- **Cooling border tensions with India:** China has also taken steps to defuse tensions with India over their disputed border after skirmishes and troop deployments in recent years. In October 2024 during the lead-up to the BRICS



summit in Russia, both countries agreed to “disengage” frontier forces and dismantle temporary infrastructure along the border near Ladakh. In December, the two sides agreed to work towards a resolution of their border dispute.

- **Leveraging leader-level engagements to showcase strengthened diplomatic ties:** On the sidelines of last month’s G20 summit in Rio, President Xi Jinping held a whirlwind of meetings with world leaders, including UK Prime Minister Keir Starmer, Australian Prime Minister Anthony Albanese, and German Prime Minister Olaf Scholz. During the preceding week’s APEC summit in Lima, Xi also met with South Korean President Yoon Suk Yeol and Japanese Prime Minister Ishiba. These meetings addressed many trade issues, from potential EU tariffs on Chinese electric vehicles to gradually the lifting the import ban on Japanese seafood.
- **Other diplomatic overtures reinforce efforts to expand China’s market access:** Chinese manufacturers and developers seek agreements that could help buffer against the coming U.S.-China trade war. Trade and infrastructure agreements emerging from China’s warmer relations with ASEAN, Latin America, and Eastern Europe – as well as developed countries in the West – could grant Chinese producers access to alternative markets for EVs, commodities, and other goods, ensuring that China remains on its current path of export-oriented growth despite U.S. tariffs.

Looking ahead, China’s overtures are finding willing interlocutors as smaller countries seek to hedge against uncertainties of the incoming Trump administration’s policies for their own interests. U.S. allies may try and improve their relationships with China if the Trump administration takes drastic measures that put into question U.S. defense and trade commitments. China may therefore seek to opportunistically exploit such rifts to drive a wedge between the U.S. and its partners and weaken coordination on security and economic issues, including on military capacity building, alignment on China’s industrial overcapacity, and multilateral export controls.

## Championing Global Free Trade

Similar to its approach during Trump’s first term, China is once again trying to cast itself as a champion for global free trade in contrast to the incoming administration’s protectionist “America First” policies. Several policies used to bolster this narrative include:

- **Limited opening of domestic markets and advocacy for free trade:** Beijing earlier this year loosened longstanding investment restrictions on its healthcare and manufacturing sectors. It also hosted several international fora dedicated to



promoting free trade, including the “summer Davos” World Economic Forum annual meeting in June, the Canton Fair in October, and the China International Import Expo in November.

- **Speaking for the Global South at high-profile multilateral events:** China also leveraged several prominent international gatherings, including APEC and the G20, to strengthen ties with developing countries and present itself as a more reliable partner than the United States. During the G20 proceedings in particular, Xi pledged to eliminate tariffs, “modernize” multilateral development banks (MDBs), and push for reform within the United Nations, including the Security Council.
- **Expanding infrastructure investments that facilitate trade:** Prior to the APEC summit in Lima, Chinese President Xi Jinping inaugurated a USD 3.5 billion deep-water port in Chancay – a key node in the Latin America – facing part of China’s Belt and Road Initiative. He also met with Chilean President Gabriel Boric, who pledged to back China’s bid to join the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP).

It remains unclear whether other countries believe the narrative Beijing is attempting to sell them. Over the past year, even China’s trade partners in the Global South, including Brazil, India, South Africa, Thailand, and Vietnam, among others, have initiated antidumping probes into Chinese steel products, renewables, and commodities. Brazil has also refused to join China’s Belt and Road Initiative despite agreeing to cooperate with China on other infrastructure projects. With few other options, smaller countries in the Indo-Pacific will continue to hedge, delay, and avoid binding commitments to simultaneously grow their interests with both the United States and China.

## What Businesses Should Watch For

- **Heightened uncertainty:** The increasingly severe U.S.-China rivalry could elevate tensions over Taiwan and the South China Sea; complicate extra-regional conflicts including Russia’s ongoing invasion of Ukraine and the Israel-Palestine conflict, disrupt and/or redirect supply chains in strategic sectors; strain relationships between the United States and Indo-Pacific partners caught in between Washington and Beijing, and amplify scrutiny over China-invested assets by both Beijing and Washington.
- **Greater competition with, and potential tariff evasion from, Chinese producers:** As China continues its diplomatic offensive to tighten bilateral trade ties and secure greater market access with its non-U.S. trade partners,



domestic companies and multinationals with local equities could face increased competition from Chinese exporters and service providers, especially in heavy industry, automobiles, telecommunications, and green technologies. Chinese greenfield investment in Latin America, Southeast Asia, and Eastern Europe may also create pathways for tariff circumvention via third countries such as Mexico and Hungary, especially for EVs.

- **Probes from Beijing to test Trump’s limits:** While Chinese decisionmakers likely have a strong sense of President-elect Trump’s views on trade, they are still eager to probe the incoming administration’s response to conflict on so-called “red-line issues” such as Taiwan and restrictions on technology. Shortly after Trump enters office, Beijing may ramp up pressure in contested areas to assess the limits of his transactional leadership style and otherwise assess how his national security and economic advisers react. Beijing may also seek to negotiate with the Trump administration, offering a mix of carrots and sticks across economic and geopolitical issues for use as both concessions and pressure points.
- **A period of reduced trade tensions for China’s other trade partners but limits on Beijing’s appeal as a promoter of free trade:** Beijing may resist the temptation to apply coercive economic measures against non-U.S. trade partners – including boycotts, antidumping probes, WTO complaints, and investigations into individual firms – to protect its image as an alternative trade partner to Washington. That said, China’s industrial policy is unlikely to change, so frictions and skepticism will still remain over the country’s overcapacity issues.
- **Shifts in China’s market access policies:** If Beijing believes it will ease negotiations over other issue areas or serve broader geopolitical goals, including reframing China’s global image, China may consider further lifting investment restrictions, especially in non-sensitive sectors. In September, China made modest moves to loosen restrictions on inbound foreign investment in its healthcare and manufacturing sectors. While some strategic industries such as telecommunications and semiconductors are unlikely to ever liberalize, Beijing could streamline investment regulations, fast-track licensing, and offer incentives to attract foreign capital in less sensitive areas.

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