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How may a Trump win impact Asia?

Christiaan Tuntono, Senior Economist for Asia Pacific at Allianz Global Investors, shares his insights on what the re-election of former US President Donald Trump might mean for investors in Asian markets.

The odds of Donald Trump getting re-elected remain high despite Joseph Biden's latest decision to drop out of the US presidential election. A potential Trump's second term (Trump 2.0) would likely be negative for Asia, particularly for China, which would be the target of further trade and tech sanctions.

The macro impacts of Trump 2.0 are expected to be channeled through both the current accounts and capital & financial accounts of the Asian economies.

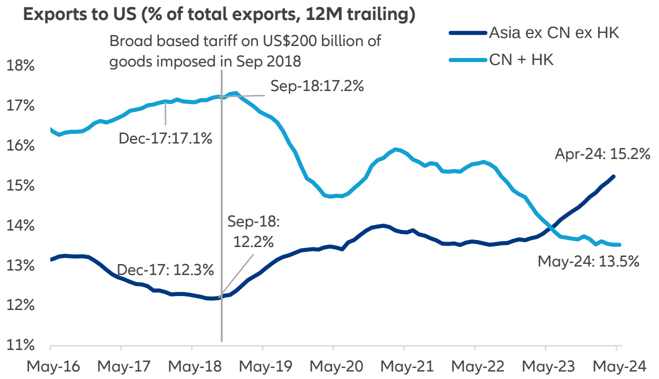
1) Current accounts

Trump's proposal to raise the US import tariffs on Chinese goods to 60% (from 25% currently) would represent another blow to US-China bilateral trade and the China-bound intermediate goods exports of Asian economies.

Asia's overall exports to the US may stay resilient, as US-China trades are being "re-wired" within the region. However, if another 10% tariff is to be levied on all US imports, the net impact on both Asia's inter-regional and external trades would likely turn negative. Import tariffs are essentially taxes on US consumers. We expect a universal tariff on all US imports to reduce global trade demand, weakening all trade flows within and outside Asia.

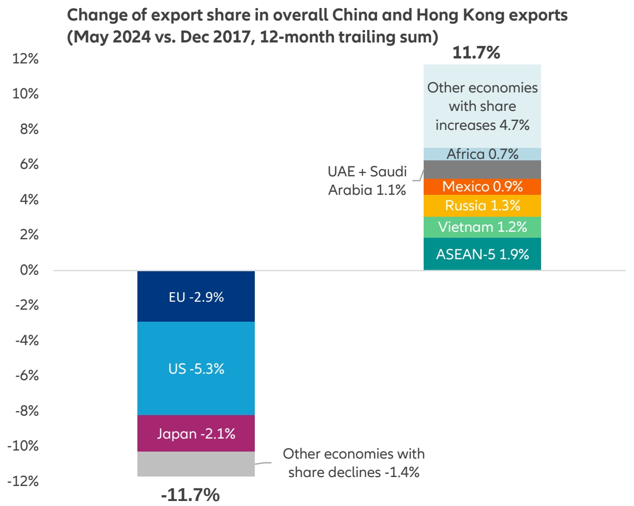
Impacted by increased tariffs, China and Hong Kong's export share in the US market declined from over 17% in 2018 to 13.5% in 2024 (Figure 1). But that said, the export share of other Asian economies increased correspondingly from around 12% in 2018 to over 15% in 2024. This evidences the "re-wiring" of China's US-bound exports to other export "conduit" economies within and outside of Asia (Figure 2)

Figure 1: China & Hong Kong's exports to the US...



Source: Haver Analytics, Morgan Stanley, AllianzGI Global Economics & Strategy, as at July 2024.

Figure 2: ...have been "re-wired" thru other destinations

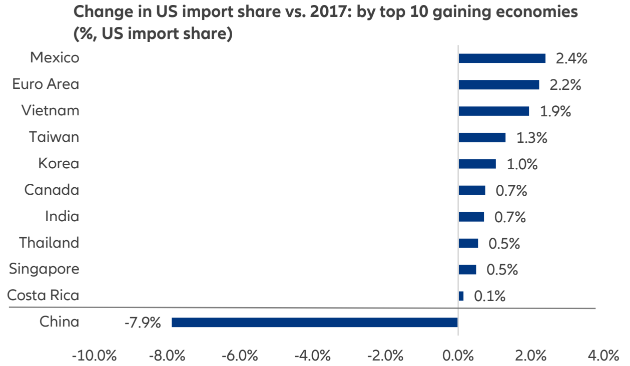


Source: Haver Analytics, Morgan Stanley, AllianzGI Global Economics & Strategy, as at July 2024.

2) Capital & Financial accounts:

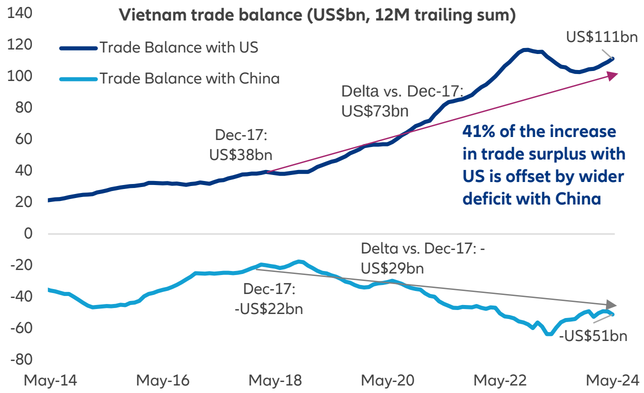
(a) Direct investments: Trump 2.0 would expedite the "re-wiring" of Asia's supply chains, under which the net foreign direct investment flows of China are likely to worsen. China's net direct investment flows have already turned negative since the second half of 2022. As for the rest of Asia, economies that have been benefiting from the "re-wiring" process are likely to benefit more, but only under the condition that the US would not broaden its trade sanctions on exporters with high Chinese intermediate goods content, such as Vietnam and Mexico (Figure 3 and 4).

Figure 3: US imported less from China but imported more from Mexico, Vietnam and others



Note: Data as of December 2023, 12m trailing sum
Source: Haver Analytics, Morgan Stanley, AllianzGI Global Economics & Strategy, as at July 2024.

Figure 4: The rise in Vietnam's trade surplus with the US is offset by wider deficit with China



Note: Both US and China trade data are utilised for consistency
Source: Haver Analytics, Morgan Stanley, AllianzGI Global Economics & Strategy, as at July 2024.

(b) Portfolio investments: The impact on Asian equity markets is likely negative as higher US import tariffs are causing headwinds in regional trade and growth. The Fed may also fail to cut rates as much as the market anticipates, keeping rates elevated to contain the rise of inflationary pressure from Trump's import tariff hikes next year. Resilient US rates and USD strength would restrain Asian central banks from easing monetary conditions, negatively affecting local rates and fixed-income markets. Although inflation is within comfort zones for most Asian economies, Asian central banks have been holding back from cutting rates. This is to maintain a market acceptable interest rate differential with the USD to maintain currency stability.

(c) Currency and deposits: Trump's promises to lower US interest rates and weaken the USD run in conflict with his plan to sharply raise US's import tariffs. His intention to extend the tax cut package he passed in 2017 is also growth and long-term yield enhancing. If Trump is re-elected into the White House and the Republican Party takes control of both the Senate and the House of Representatives (i.e. red-sweep scenario), there is a high chance that the 2017 Tax Cuts & Jobs Act (TCJA) would be extended. Continued deficit spending is growth enhancing but projected to raise the US debt-to-GDP ratio by another 16 percentage points to 132% by 2034. Such development may worsen the credit standing of the US government, raising the risk premium on US Treasury securities. We think Trump's economic policy platform is inherently inflationary and USD supportive, except for his pledge to loosen the regulation on fossil fuel exploration which may help raise supply and lower prices.

In sum, we think Trump 2.0 would likely be negative for Asia's growth and asset market performances. We have turned cautious on the Chinese, Taiwanese, and Korean equity markets, anticipating rising headwinds under Trump 2.0 next year. We remain constructive on the Indian and Japanese equity markets, reckoning that their large domestic economies would likely be the least impacted by Trump's protectionist measures. India and Japan are less reliant on external trade to drive GDP growth. Their export destinations are also more US and EU-centric vis-à-vis China. Both economies are also net importers of fossil fuels which may benefit from Trump's energy policies. We remain neutral on other Asian equity markets, especially Southeast Asia, anticipating a more challenging external trade and capital flow environment ahead.

The ongoing disinflationary trend in the US is likely to continue fueling the Fed's rate cut expectation over second half of 2024. We will stay vigilant and turn more cautious as we approach November to gauge whether Trump 2.0 remains a highly probable event.

To view more market insights from Christiaan Tuntono, visit **Market & Model QuickUpdate** at **ap.allianzgi.com**

Topic	Harris/Walz	Trump/Vance
Fiscal Policy	Potential ~$5 trillion in tax hikes partly offset by new spending (net $3.3 trillion deficit reduction by 2034). Support low-earners with expanded child tax credit and student loan forgiveness. Raise taxes on high-earners and corporations. Allow some 2017 tax cuts to expire (personal tax rate rises 37% to 39.6%). Levy new 25% minimum tax on wealthiest (on income & unrealised gains). Raise corporate rate from 21% to 28%. Raise corporate minimum rate from 15% to 21%. Raise stock buyback tax from 1% to 4%. Ignore entitlement reform.	Make the expiring 2017 tax cuts permanent (gross cost of ~$6 trillion by 2035), top personal rate stays at 37%. End federal taxation on tips for service workers and further cut corporate rate from 21% to 20% (note that the 2017 reduction in corporate rate from 35% to 21% was permanent). Partly pay for new tax cuts and extensions via increased tariffs and reduced government spending/bureaucracy. Ignore deficits and entitlement reform.
Trade Policy	No plans for tariff reductions or new multilateral trade agreements. Counter China's One Belt One Road with US investment.	Promote "America First". Implement 10% blanket tariff on all imports (except China at 60%). End China's Most Favored Nation status.
Institutional Approach	Support the rule of law. Support multilateral organisations, Ukraine, Taiwan, and an Israel-Palestinian 2-state solution. Stay tough on Russia.	Reduce consultations with traditional allies. End Ukraine support. Undermine NATO. Reconfigure DOJ and FBI. Terminate Trump's federal classified documents and election interference cases. Pardon January 6 convictions.
Immigration	Increase border enforcement. Create citizenship path for some undocumented individuals. Smooth and expand the visa process.	Restrict immigration. Build southern border wall. End catch and release policy on illegal immigration. Deport undocumented immigrants.
Federal Reserve	Maintain laisse faire.	Aggressively jawbone for lower interest rates. Replace Jerome Powell in 2026. Nominate Trump acolytes to the FOMC.
Climate Policy	Promote economy-wide net-zero emissions by 2050. Focus on unions & sustainable infrastructure. End federal fossil fuel subsidies.	Exit Paris climate accord. Promote oil/gas/coal exploration. Discard Biden's green initiatives. Slow the clean energy & EV transition
Regulation	Cut red tape on energy projects – particularly obstacles to building green infrastructure (transmission lines, etc).	Consolidate regulatory agencies, including FTC & FCC. Cut two current regulations for each new one proposed
Health Care & Education	Expand health care access. Universal pre-school. 2 years free college.	Repeal & replace Obama's Affordable Care Act

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