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What Biden might mean for Asia

When it comes to US-China trade, the new president's changes may be more style than substance. But his policies have implications for Asian markets

The election of Joe Biden as US President clearly marks a change of direction for the United States on a host of matters of policy, from domestic stimulus to participation in the Paris Agreement. But what does it mean for Asia?

There are two ways of looking at this: the direct engagement of the US with Asian governments and economies; and the knock-on effect to Asian markets from US domestic positions.

From trade to security

On the first front, China is the obvious place to start, since the US-China trade war became one of the signature policies of the Trump administration. It is tempting to imagine a radically different relationship between the two countries under Biden, and certainly there is an expectation of a more publicly cordial approach, with fewer unpredictable statements.

But in terms of policy, there might not be that much of a difference. As *The Diplomat* puts it: "A hawkish position on China is probably the closest thing that US politics now has to an issue of bipartisan concord."[1] In the time since Biden served as vice-president to Obama, American public and political opinion has turned against China somewhat, principally out of concern about its strength and ambition. There is very little to gain for Biden in suddenly turning soft or conciliatory with China.

Nomura recently conducted a client survey which showed that 60% of participants believed China preferred a Biden administration, simply because of the better communication and reduced friction, but that 65% expected a honeymoon period between China and the US to last only three to six months. Almost three quarters of them (70%) do not anticipate a reduction in China tariffs in 2021.[2]

Turning to another broker's opinion, ING expects an approach to China "probably different in style rather than substance",[3] and that's a widespread view.

There's also little expectation of Biden seeking to push the US back towards Asian trade deals such as the Trans-Pacific Partnership, which Trump abandoned in 2016 (its other members ratified a revised version

called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or CPTPP; many of those members have since signed another Asian trade agreement, RCEP). Few expect the US rejoining to be a priority; indeed, some argue that the fact India stayed out of RCEP may make it a natural candidate for more trade with the US.

That being said, it is likely that a Biden presidency is going to be better for the global trade environment, Asia included. Biden is known as a multilateralist in a way that Trump never was, and his trust in the institutions of international trade is likely to help to resolve trade disputes.

So even if it isn't ratified in trade agreements, there is some hope that Biden will, like Obama before him, seek to pivot to Asia. In practice, this will likely mean security ties with Japan, Australia, India and some ASEAN countries, rather than trade and investment explicitly, but it is entirely possible that one can lead to the other. Meanwhile intra-Asian trade will continue to grow.

Implications for asset classes

Then there is the question of what happens to Asian asset classes as a response to Biden's domestic policies and the health of the US.

The clearest example of this is the US$1.9 trillion economic rescue package Biden passed to support American households and businesses as they recover from the pandemic. Singaporean bank DBS believes it would prompt US growth to rebound from -3.2% in 2020 to +5.5% this year.[4] That, in turn, would create tailwinds for growth worldwide, so boosting Asia's exporters.

The Biden administration made sustainability a keystone of its election campaign, and there will be a clear focus on renewable energy and infrastructure spending domestically, which should also benefit relevant stocks in this area in Asia, while increasing scrutiny of sectors that are not considered sustainable. (Moody's, for example, says it could "accelerate the crystallization of carbon transition risks for industrial sectors prominent in many Asian countries; particularly power, automotive, oil and gas, and steel".)[5]

One common view is that emerging market debt will be well positioned as investors move to re-risk their portfolios in pursuit of yield, assuming that US yields remain reasonably low as the country recovers from the pandemic, and that fear of further damage to the global economy recedes. Chinese bonds, in particular, offer a considerable yield differential over US Treasuries.

Sources:

1 https://thediplomat.com/2020/11/what-would-a-biden-administration-mean-for-southeast-asia/
2 Nomura Asia Insights, December 10 2020.
3 https://think.ing.com/opinions/what-does-a-biden-presidency-mean-for-asia
4 DBS CIO Perspectives, February 2 2021.
5 Moody's Sector Comment, *Biden administration policies will have limited credit implications for Asia*, December 9 2020.

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