On Tuesday 3 November 2020, American voters decided who holds the balance of power in Washington. President-elect Joe Biden won the election (7 November, ET), and at the time of writing (9 November, HKT), President Trump has not formally conceded defeat[1]. The control of the Senate is still unknown as there are two run-off races to be held in January 2021 in Georgia[2]. In this investment note, Ronald Chan, Chief Investment Officer (Equities, Asia ex-Japan) examines the potential investment implications for Asian equities under Joe Biden's presidency.

US election: What's next for Asian markets?

Asia, especially North Asia, could benefit

Under a Joe Biden presidency, the foreign policy order of preference is expected to be:

- Rebuild relationships with America's allies
- Narrow the income gap
- Focus on China

From a foreign policy and investment perspective, we believe that negative sentiment is likely to soften. While Sino-US relations would not be expected to improve significantly, the bellicose rhetoric and sharp policy swings of the Trump administration might be fewer under a new administration. Even though both sides share common ground on climate change and carbon neutral environmental goals, human rights will remain on the agenda. Also, we do not think that the tariffs placed on China since 2018 will be rolled back. That said, the *perception* of trade conflicts and tension would ease.

From a US-dollar perspective, the currency is expected to remain weak, which should be a positive to emerging Asia as a whole with a tilt towards the procyclical currency in North Asia. In a split Congress scenario, US tax, healthcare and relief policies under the new government are likely to be more *reactive* than *proactive*. Any discussions about further assistance will likely end up in a deadlock.

With COVID-19 being the highest priority for the new administration, the US economy will probably enter a "W-shaped" recovery and experience a lower growth path, especially if an effective vaccine is unavailable to the general public. We view this as a positive for China, as the country has recovered well from COVID-19 with third-quarter GDP at 4.9% (year-on-year change, after 3.2% in the second quarter[3]). More capital is therefore expected to flow into China given the growth divergence. Lastly, Biden's policies on mending ties with countries in the developed markets should favour multi-national companies as geopolitical risks subside.

A closer look at the election impact on North Asia

Over the past four years, the US administration has strategically placed restrictions to hinder large-scale electronic device producers and burgeoning semiconductor developers in China. It has also executed a broader containment strategy of China's economic development in other key sectors. This has benefited high-tech producers in Taiwan and Korea.

What will a new administration mean for North Asia?

[1] Bloomberg: "Biden declares victory, calls on Americans to mend divisions", 8 November 2020; The Guardian: "Donald Trump refuses to concede defeat as recriminations begin", 7 November 2020.
[2] Financial Times: 8 November 2020.

[3] National Bureau Statistics of China, 21 October 2020.

We expect potentially moderate relief from escalating Sino-US trade and tech tensions, but the general strategy of curbing China's technological rise may not change in the longer term. One should expect China to become more attuned to the multinational rule-based approach as the country rises in global stature. While milder rhetoric may see multinational companies in China slow down the process of supply-chain relocation, they will also be interested in the "dual circulation – Made for China" agenda as prescribed in 14th five-year plan.

A closer look at the election impact on South-East Asia

As we wrote before, ever since the Sino-US trade war started in 2018 and intensified in 2019, Asian countries have been focusing on self-help policies that promote growth. We envisaged that countries would organise themselves more around the concept of regionalisation than globalisation.

Therefore, we believe the supply-chain shift for low-end tech and manufacturing production lines to South-East Asia will continue. Also, a weaker US dollar would lower the financing costs for South-East Asia companies, which, in turn, helps to attract more foreign direct flows and investment. The recent announcement that Chinese firms will collaborate with businesses from France, Japan and Korea (among others) to invest an estimated US$35 billion in Indonesian nickel mines and facilities by 2033 is a case in point[4].

In India, the path of oil prices warrants attention, as the country has been benefiting from declining oil prices over the year-to-date, which, to a large extent, improves the country's balance of payments.

It's likely that Biden's policy on Iran and immigration will have positive implications for India's oil imports, as well as its IT outsourcing industries. In addition, we believe that manufacturing growth will continue to be led by the government's supportive "Made in India" policies (incentives and tax cuts for domestic production) and a conducive global environment that is looking for a supply base outside of China.

Asia's robust growth drivers remain

Although the US election results will have certain impacts on North Asia and some indirect effects on South-East Asia, it's important to note that the result is a standalone event and not an end game. Instead, it's more a gauge of future US policy direction and its transmission to Asia. Indeed, Asia possesses many growth drivers that are adapting to the way people consume, react, and transact in a post-pandemic world. For one, Asia still maintains higher GDP growth differentials versus developed markets. As the region becomes increasingly self-reliant and develops its own trading, technology, and consumption ecosystem, we believe investors who want a stake in Asia will need to explore more opportunities in this part of the world.

[4] Reuters: "Indonesia sees China firms lead "commitment" for $35 billion nickel investments", 16 October 2020.

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