CCBI SECURITIES RESEARCH

The Big Picture: US Post-Election Policies and Their Impact on China

宏观视野: 美国大选结果悬而未决，未来走势影响如何?

崔历
(852) 3911 8274
cuili@ccbintl.com

美国东部时间 11 月 3 日当晚，美国现任总统特朗普和民主党总统候选人拜登在总统大选当中还没有分出明显的胜负。同时，美国参议院竞选也尚未产生有利于民主党的压倒性胜利。假设共和党和民主党分别在在参议院和众议院保持多数席位，则会形成由不同党派的行政和立法机构组成的一个分化的政府。

选举结果可能会影响短期复苏的速度和全球利率环境：目前看来，美国的经济增长还在从第二季度的低迷中逐渐复苏，无论谁当选，经济都有望进一步回升。拜登获胜，叠加民主党在参议院赢得多数席位的"蓝色风暴"则意味着明年政府财政将会更为扩张，短期经济复苏更快，美国长期国债利率也可能更快的上行。特朗普当选或民主党未在参议院赢得多数则将会削弱经济反弹的速度，减缓利率的回升。中期政策的持续效果则有待观察：例如，拜登对高科技和清洁能源的支持政策对特定行业有利，但高负债务仍可能拖累广泛的生产率提高，不利于经济的持续回升。

美元趋势下行的总体方向不变，有利人民币汇率。但需要关注选举结果不确定的情况下美元的阶段性反弹：美国的财政赤字和联邦债务在疫情后已急剧增加。未来几年民主党的扩张性政策可能带来进一步的财政缺口，不利美元，对人民币汇率继续升值提供支撑。但选举过程的不确定性可能带来短期市场调整和美元走强。

中国政策预计维持"双循环"框架。美国选举体现的社会分化显示其政策方向存在不确定性，中期经济也仍面临挑战。对中国而言，扩大内需，提升自主创新仍是经济的战略重点。 如果拜登成功当选总统，中美双方在清洁能源等问题上的合作可能成为促进双边关系的切入点。中国也会继续扩大对外开放，提升跨境贸易和投资，对冲脱钩压力。弱美元环境也为更全面的开放提供了机遇。

The US Election Day has not delivered a clear winner of the Presidential race. The US senate race has also failed to produce a landslide in favor of democrats. A divided government, where neither party is a clear winner of the presidential race and there is a divided Senate and House, remains highly likely.

The election outcome may affect the pace of the US recovery, but likely not its direction: US growth is on track to pick up further from its slump in 2Q. A blue wave would push up government spending especially in infrastructure, resulting in a stronger economy and higher rates next year. Over-time, Biden's promised reforms that favor high tech and clean energy sectors would also be positive for productivity gains, although higher debt may remain a drag. A divided government will dampen the scope of policy changes.

Headwinds on dollar to continue in either case, positive for RMB, but watch out for a near-term dollar bump: The fiscal deficit and federal debt have increased sharply during the pandemic, and the fiscal gap would likely be larger under Biden, which is dollar negative. The RMB will likely strengthen against the dollar in the medium-term, regardless of the winner. However, a contested election could significantly dampen risk sentiment and boost the dollar and dampen RMB in the near-term.

China will likely stay on course in its "Dual Circulation" policy: For China, the sharp division exhibited by the US election might only add to the case of pursuing a development strategy that relies on domestic demand and technology innovation. Under a Biden presidency, the two sides could seek to collaborate on issues such as clean energy, leading to a better bilateral relationship. The opening up will also continue as China seeks to stay engaged internationally, and a weak dollar environment provides a window of opportunity for faster external liberalization.

As of the early morning of Nov 4 EST, the US election has not delivered a winner as key battleground states continue to count ballots, and many mail-in votes under the pandemic are still on the way. So far, the much anticipated landslide in favor of democrats has not materialized, and both sides in the Presidential race remain competitive. Equally important, the hope by democrats to regain control of the US senate also diminished after a few key states went Republican.

The outcome thus remains highly uncertain, it could take days to count all remaining ballots. The Senate race could take even longer, and the final layout of the race may not be known for weeks. No matter what the outcome of the Presidential race is, a divided government with executive and legislative branches from different parties appears highly likely.

This report examins the different scenarios of the election outcome and discusses the implications of post-election US policies on China.

Trump and Biden economic plans: where do they differ?

Trump's second term will mostly mark a continuation of past policies, while a Biden presidency will likely introduce changes on tax, health care, immigration, and immigration policies. A "blue wave" scenario where not only Biden wins the presidency, but democrats also control both the Senate and the House, would allow Biden to push through most of the above initiatives. A divided government would on the other hand imply much less change from the current status quo. In particular Biden's ambitious health care reform will also likely get less support. The final spending would also likely be considerably smaller than proposed.

Fiscal policies: a more expansionary plan under Biden

Under trump: more tax cuts are possible: The Tax Cuts and Jobs Act (TCJA) is probably the most important legislative act that Trump pushed through in his first two years of presidency. In a second term, Trump may make the temporary provisions on individual tax cuts permanent. He also proposed further reduction on capital gain taxes, as well as tax credit to encourage manufacturing reshoring. In addition, **there could also likely be additional spending including infrastructure**. Although Trump promised "significant investments in infrastructure", the issue didn't take priority on the legislative calendar during Trump's first term. The Trump administration called for USD$1-2 trillion of total infrastructure spending this year. Traditional infrastructure work such as roads and bridges likely will receive the most support, while funding will also be available for 5G wireless infrastructure and rural broadband connections. **The additional pandemic relief measures should be on Trump's priority list as well.** Should Trump win with a divided government, the relief measure is likely to fall short fall of the current package being proposed by the House (HEROES 2.0 passed House Oct 1 at US$2.2 trillion).

Biden aims for higher government spending and more taxes: Biden's plan for additional spending is more likely to be in the range of US$3-4 trillion over 10 years, including an infrastructure plan especially on clean energy, health care, education and other social programs. Biden also pledged to invest in technology and R&D. Near-term, Biden aims to push through another sizable tranche of COVID-19 relief measures exceeding US$2 trillion, including subsidies to individuals and small businesses, tax credit, student loan forgiveness, fiscal relief for states and medical expenses. However, the final relief package is likely to be smaller under a divided government. **Higher taxes:** Biden proposed to raise taxes from 2021 onwards and increase federal income by more than US$3 trillion in ten years. The market generally views a later and smaller tax increase to be more likely. TPC estimates that on net, Biden's proposals would increase federal revenues by US$2.4 trillion over the next decade. Income tax for the top 1% (those individuals making 400k and above) will be raised, and business income tax will be increased after Trump slashed it from 35% to 21%. Big tech, pharmaceuticals, fossil fuels, and real estate industries could face higher tax burdens. Meanwhile Biden would expand tax credits for middle and lower-income individuals and for new investments in domestic manufacturing.

On-net, a fiscal gap of additional US$2 trillion would likely be added to the government deficit in the coming decade under a Biden government.

Major differences on issues related to social reforms, health care and climate change

Biden has said that he would reverse the Trump administration's actions that have reduced healthcare coverage, and will build on the Affordable Care Act (ACA) with extended benefits. Other reforms would include lowering drug costs and introducing a public medical insurance scheme. Biden would also increase the Federal minimum wage, and extend the range of workers covered by the federal minimum wage policy. Immigration reforms under Biden could allow net immigration to rise from 60,000 under Trump to 1 million each year. On climate change, Biden plans to recommit the US to the Paris Agreement, reduce US net greenhouse gas emissions to zero by 2050, and reverse Trump's support for fossil industries.

How much can the policies help address the economic problems?

In recent years the US economy has struggled with a range of problems, including low productivity, low growth, and rising social disparity: Productivity growth has stayed lower in the past ten years, and average income growth has fallen behind, with rising disparity. Despite innovations, the economic benefit has been narrowly confined to the big tech players. **Ballooning debt**: US government debt had been rising before the pandemic, and COVID-19 pushed public debt well above the level last reached during WWII, threatening the appeal of the dollar as a reserve currency. The increase in corporate debt has increased financial fragility. **Escalating protectionism and isolationism:** During the past four years the US has withdrawn from its international commitments in trade, investment, and environmental protection. Domestic de-regulation has worsened its trajectory of carbon emissions. The trade war with China and to a lesser extent with developed markets has cast uncertainties on business confidence and global supply chains, without narrowing the US trade deficit.

Will the US election make any difference to the future path? Compared to a second term for Trump, Biden's win would likely provide more stability in US policies and a near-term boost to growth through higher spending. More support to increase the competitiveness of US, especially in the services and high tech industries, may also be possible under Biden. On the other hand, higher tax rates and redistribution of wealth towards low-income workers could rebalance the economy but could also weaken US financial markets, depending on to what extent they are deployed. In either case, a large fiscal deficit, monetary accommodation, weakening US dollar, and Sino-US friction will likely continue in the next few years. Thus the picture is likely to stay mixed in the coming years. More specifically:

- **Biden's fiscal package would likely give a larger boost to US growth given the larger spending items**: A COVID-19 relief bill would likely pass after the election, helping growth recovery. Under the Biden administration, the relief package is likely to be larger. In addition, Biden's economic plan may also lead to higher post-COVID growth. The additional lift stems from the different fiscal plan: Biden would focus on higher infrastructure spending, in contrast to Trump's tax cuts; the former would have greater direct impact on demand. [1] Oxford Economics estimates that, assuming Democrats sweep, Biden's plan could lift real GDP growth by 1.2ppts to 4.9% in 2021, compared to 3.7% in a status quo policy baseline

- **While Biden is set to raise taxation, the negative impact may be quite small:** Biden's income tax increase affects only the top 1% of income earners. To the extent the higher taxes to the rich help to fund the transfers to the poor, total spending could also increase given the higher income elasticity of the latter. Biden has pledged a hike of the statutory corporate tax rate from 21% to 28% but it is generally expected that such a hike is likely to be delayed till after 2021 when the economy recovers, and the effective rate hike could be much smaller. A marginal tax increase as such may not restrain investment if demand conditions improve. Indeed, a lower effective tax rate during Trump's first term did not feed into sustained business investments. Instead, corporate buybacks and acquisitions increased, reflecting a pessimistic outlook on demand, and uncertainties due to the trade war.

- **Advanced sectors more favored than traditional sectors under Biden**: High tech and services would receive additional investment and in some cases tax credit. Biden's infrastructure plans favor clean energy-related sectors, such as electric vehicles, aiming to bring the US to net zero emissions by 2050, and by 2035 in the electricity sector. This contrasts sharply with Trump's support of fossil fuels and deregulation of coal in the past four years, which is likely to continue under a second Trump term.

- **However, broader productivity gains less certain under either case**: infrastructure spending could help to address one of the key weaknesses of the US economy in recent years, and demand growth could jump start the economy, stimulating more capital spending. Under Biden, the government's investment and R&D on medicine and high tech could potentially promote competitiveness of technology sectors. However, any sustained productivity gains would take time. A low interest rate environment still provides support to zombie companies, and would be a drag on productivity growth.

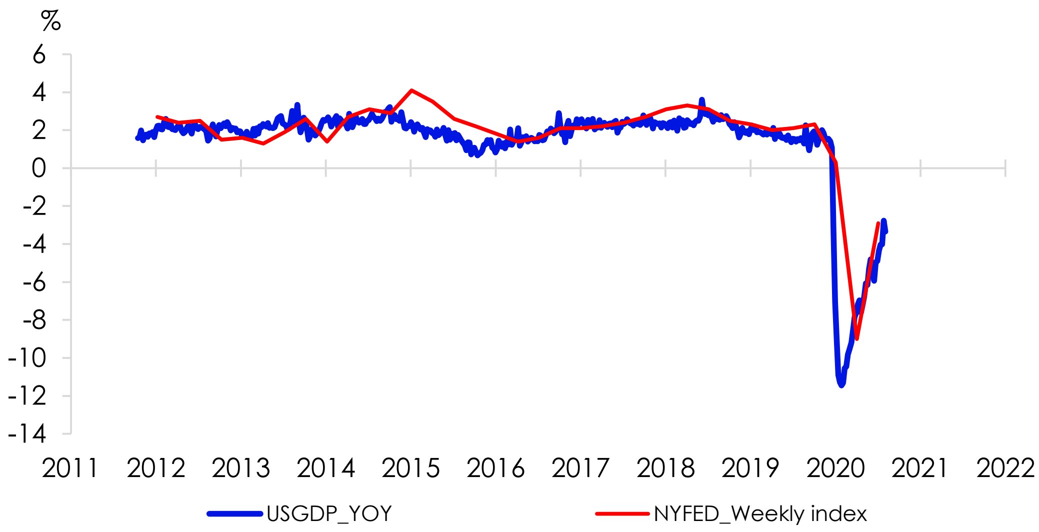
- **Fiscal gap and government debt will stay large and will likely widen more under Biden**: The US Congressional Budget Office (COB) predicts that US federal deficit will exceed 16% of GDP in 2020. For 2021, Oxford economics estimates that a deficit of around 15% is likely, incorporating additional government stimulus. All told, US federal debt will well exceed 100% of GDP next year and trend higher in the coming decade. A larger fiscal deficit would add to this gap, at least in the first few years.

[1] Research by the San Francisco Fed shows that, during periods of high economic slack, each dollar of infrastructure spending increases economic activity roughly 4x more than a tax cut.

Implications for China

A Biden win could generate stronger US recovery, positive for world growth in the next year or so: The US growth trajectory in the next three to six months still depends on the country's pandemic control and vaccine development. So far, US growth has remained on a recovery path, despite a surging number of COVID-19 cases and a still-high unemployment rate, and will likely be supported further by resilient consumption (Fig 1). The recovery of the US economy is positive for Asia including China through trade. Chinese trade has held up as the global manufacturing sector sailed through the pandemic, holding up much better than services. A Biden win would imply potentially better pandemic controls, a larger relief package, and less downside growth risks than under a second Trump term. More infrastructure investments in the US could also benefit the manufacturing sector further.

Fig 1: US economy is on track towards recovery



Source: Bloomberg, CCBIS estimates

Higher rates likely next year, more so under Biden: A faster economic recovery (especially with a successful COVID-19 vaccine) and potential larger government spending under Biden would imply higher inflation and inflation expectation, which in turn may trigger an earlier Fed reaction, likely in 2023. This may push up the 10-year treasury bond to beyond 1.5% next year, in our view.

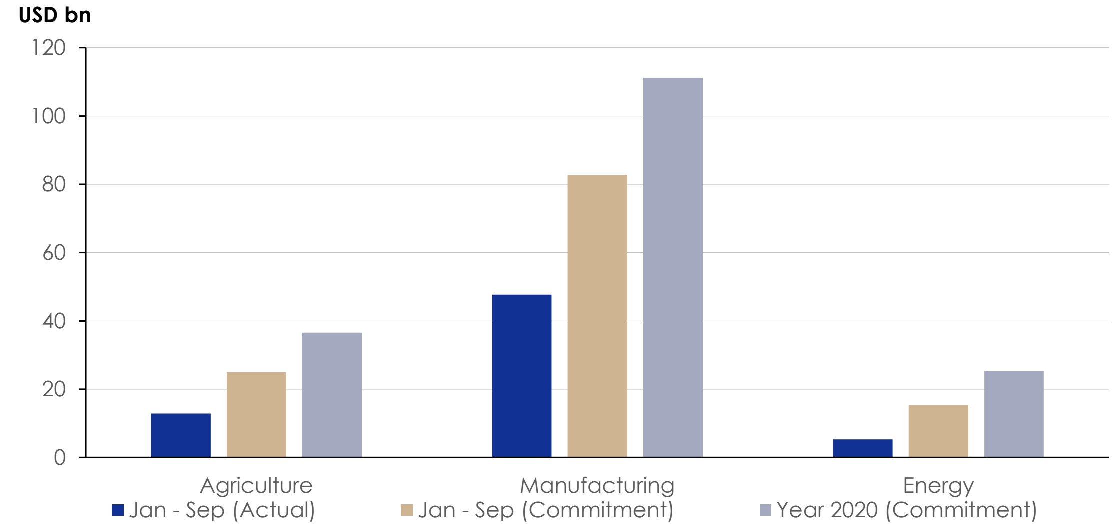
Dollar still on the way down, a positive for the RMB. The dollar index has weakened in recent months, as global growth improved and risk seeking sentiment picked up, as we anticipated[2]. Biden's economic plan implies a larger fiscal gap will persist, which could weigh on the dollar even more in the next few years. Thus the RMB will likely strengthen further in coming years, regardless of the winner. Near-term, the likely election contest could generate large swings in the US markets and push up the dollar, however.

Sino-US relationship: uncertainties remain: Biden may favor less confrontation and more dialogue in building international relationships. However, politically it might be difficult to retreat from trade deals all at once. Biden may choose to lift some tariffs on European goods to repair the relationship with former allies, but tariffs imposed on Chinese imports will likely remain in place, at

[2] The Big Picture: Global macro landscape post coronavirus and China's options, May 15, 2020

least initially. The progress of the Phase One trade deal has been affected by COVID-19 this year, with China reaching only about 53% of the expected purchase target by Sep 2020 (Fig 2). Meanwhile, bilateral trade balance has rebounded this year and China's imports from the US also remain well below 2017 levels. The perceived failure to rebalance trade could lend support to a new approach to engage with China under Biden. PIIE, for instance, suggested that the US should push for more market-oriented trade initiatives such as liberalizing tariffs and removing nontariff barriers.

Fig 2: US-China Phase One Tracker: China's purchase of US goods



Source: Bloomberg, CCBIS estimates

For China, such a mixed picture suggests that its development strategy is unlikely to be swayed, and domestic demand and innovation will remain the key pillars to growth: it is possible post-election that bilateral dialogue becomes more constructive if Biden wins, but it is unlikely to fundamentally alter the strategic competition that the two countries have engaged in. Moreover, the long-term US challenges under either candidate and the sharp divide exhibited by the US election signals uncertainties of the future policy path. Thus, "Dual Circulation" emphasized by the Chinese government and highlighted in the latest 14th 5-year plan is likely to persist. The Dual Circulation approach calls for strengthening domestic demand especially consumption, and acceleration in innovation and technology gains, while staying engaged in international trade and investment[3]. Such a framework would be flexible enough to accommodate the shifts in the US policies. For instance, under Biden, clean energy could be one key area for potential bilateral cooperation. In addition, China is expected to stay committed to its external opening up policy hence remain engaged with the international markets. Downward trend for the dollar in the medium and longer-term could provide further supports to the RMB, and a window opportunity for China to further open up its capital market and RMB internationalization.

[3] China Economics Update: China's new Five-year Plan emphasized innovation and sustainable growth, November 1, 2020

Table 1: Major policy positions between Trump and Biden

	Trump	Biden
Covid-19 relief measures and longer-term economic plans	<u>New round of Covid stimulus package worth nearly $1.9 trn</u> **•Recent estimation shows that the White House package could go up to $1.9 trn or more than earlier proposal of $1.8 trn** •Stimulus checks of up $1,200 for eligible adults and $1,000 for qualifying child dependents (the CARES Act set dependent payments at $500) •Enhanced unemployment benefits at $400 a week (vs. $600 in the CARES Act and $300 that the president authorized this summer through executive action) •Aid may be provided in areas such as airlines, enhanced unemployment insurance, and extending Paycheck Protection Program for businesses	<u>More than $2 trn Covid stimulus package and a $4 trn long-term economic plan</u> •Include more direct stimulus payments to affected Americans ($1,200 for individuals, but possibly more people will qualify; up to $16,000 in child care tax credits for families earning less than $125,000 annually) •Offering student loan forgiveness of $10,000 minimum •Boost and renew unemployment benefits •Increase Social Security payment (additional $200 added to the monthly payments) •Additional relief measures include more money for small business, emergency sick leave, fiscal relief for states, no out-of-pocket money for Covid-19 testing, treatment and eventual vaccine
Taxes	<u>Republicans are not expected to change major tax plans put forward in Trump's first term</u> **•For individuals (original plan):** - Top ordinary income tax rate is 37%; - No payroll tax imposed on earned income in excess of $137k; - Other major measures include long-term gains and qualified dividend income (QDI) taxed at max. 20%, 20% of a taxpayer's qualified business income may be deductible, making the effective tax rate on that income as low as 29.6%, etc. **•For corporates (original plan):** - Corporate income tax rate is 21%; - Global intangible low-tax income (GILTI) may be taxed at rates as low as 10.5%;	<u>Hike corporate taxes and taxes for higher income taxpayers</u> **•For individuals:** - Raise taxes for the individuals with individual tax higher than $400k: - Generally set top ordinary income tax at 39.6% for taxpayers with income over $400k; - Apply a Social Security payroll tax of 12.4% to earnings above $400k; - Other measures such as phase out qualified business income deduction for taxpayers with income above $400k **•For corporates:** - Increase the corporate income tax to 28%; - Double the tax rate on GILTI and impose it country-by-country; ... fuel and real estate industries, including ...on and tax. ...nformation include: ...that "offshore manufacturing and ... goods or provide services back to the ...America" tax credit.
		<u>...Trump administration</u> ...h is much tied to Biden's climate policy. ...s, water systems, electricity grids, and ...acilities are included in Biden's plan.

预览已结束，完整报告链接和二维码如下：
https://www.yunbaogao.cn/report/index/report?reportId=1_1591