TAKING ON TRUMPONOMICS

The inflammatory campaign rhetoric of President Donald Trump is becoming more like official United States policy. George W. Russell asks what are the likely U.S. stances on trade, immigration and other issues and how will they affect Hong Kong, Mainland China and the Asia Pacific

Illustrations by Ivan Canu

The telephone call in February between Presidents Xi Jinping of China and Donald Trump of the United States – in which Trump reportedly pledged to continue the "one China" policy pursued since the 1970s – appeared to ratchet down recent tensions between the two nations.

Since he first hit the campaign trail, the new U.S. leader has unnerved both governments and people across the Asia Pacific with his strident opinions on many crucial issues from economic and trade policy to immigration and national security.

Trump set the tone during his inaugural address when he reiterated his populist "America First" mantra that helped him win the November 2016 election. "Every decision on trade, on taxes, on immigration, on foreign affairs, will be made to benefit American workers and American families," he told assembled guests after his swearing-in as president on 20 January.

So far, some of his proposed policies, inevitably dubbed "Trumponomics," have resonated with large sections of the U.S. electorate, such as revitalizing manufacturing, tightening restrictions on immigrants and visitors from certain predominantly Islamic countries, and imposing tougher deals on its major trading partners.

"American business confidence is up," Christopher Wood, Chief Equity Strategist at CLSA Asia-Pacific Markets in Hong Kong, tells *A Plus*, citing three reasons. "Executives are hoping for the repeal of 'Obamacare' [the health scheme that required employers to insure full-time workers], lower corporate taxes and less regulation."

Wood cautioned that small business owners were more upbeat than their counterparts in major corporations. "Big business is more mixed," he says, especially among American companies with international subsidiaries that export to the U.S. from Mexico.

Trump has reserved the worst of his wrath for China. "We can't continue to allow China to rape our country," he told a campaign rally in Fort Wayne, Indiana last year. In 2012, he posted on Twitter: "The concept of global warming was created by and for the Chinese in order to make U.S. manufacturing non-competitive."

The president and some of his economic advisers also believe that China trades with the U.S. unfairly, using perceived advantages such as a favourable exchange rate. (Japan and Germany were also labelled currency manipulators).

The potential threat to the world's largest bilateral commercial relationship is what confounds markets. "In our view, the biggest risk to the global economy in 2017 would be a serious escalation of U.S.-China trade tensions," says Ethan Harris, Global Economist at Bank of America Merrill Lynch in New York.

Tensions over trade

Trump has threatened to slap tariffs of 45 percent on Chinese imports. China sold US$463 billion worth of goods to the U.S. in 2016, mostly electronics, clothing and machinery. American exports to China, including soybeans, aircraft, vehicle engines and scrap metal, were worth just US$116 billion last year.

That US$347 billion deficit rankles Trump and his administration, especially advisers such as Peter Navarro, the head of Trump's newly formed National Trade Council and Professor of Economics and Public Policy at the University of California Irvine.

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Navarro, co-author of *Death by China: Confronting the Dragon – A Global Call to Action* (2011) and *Crouching Tiger: What China's Militarism Means for the World* (2015), believes China has a predatory trade system that has closed 57,000 American factories and eliminated 25 million U.S. jobs.

Other academics note that modern trade is much more complicated. "Navarro's attitude to trade seems 19th century mercantilist," says Mark Beeson, Professor of International Politics at Murdoch University in Perth and author of *Regionalism and Globalization in East Asia: Politics, Security and Economic Development* (2007).

"It doesn't take into account the complex nature of transnational production," he adds. "Many of the principal exporters from China are actually American multinational corporations and some of the principal beneficiaries of trade relations with China are impoverished American consumers."

Strains over trade relations with China are unlikely to move to the back burner any time soon as they were among the centrepieces of Trump's campaign agenda, notes Harris at Bank of America Merrill Lynch. "He has argued that many Chinese policies are unfair, including currency manipulation, theft of trade secrets, hacking, and lax labour and environmental regulation."

Nevertheless, to what degree the administration's rhetoric on trade will translate into actual policies remains to be seen. "I do not think that a full-blown trade war will break out between the U.S. and China," says Louis Kuijs, Head of Asia Economics at Oxford Economics, a consultancy. "But it is clear that the climate for Chinese exports to the U.S. will get significantly harsher."

While China has rejected U.S. criticism over its trade policies, it is unlikely to escalate tensions. Indeed, Beijing might try to accommodate some U.S. concerns. "China has to be prepared for a hollowing-out of its manufacturing sector," forecasts Hu Yifan, Chief China Economist at UBS in Hong Kong, "with some high-end manufacturing returning to the U.S."

Fallout in Hong Kong

Given Hong Kong's roles as an international financial centre, an entrepôt and home to the regional headquarters of nearly 300 American corporations, vibrant international trade is vital. In January, UBS revised the city's economic growth forecast downward by 0.2 percentage points to 1.7 percent for 2017, citing a sluggish global economy and the likelihood of Trump's trade policies creating an unfavourable goods and services export environment.

Hong Kong is also expected to suffer if it is caught in the middle of a major breakdown in relations between Beijing and Washington. "The U.S. has huge interests and stakes in Hong Kong," points out Lorenzo Riccardi, Managing Partner of RsA Asia Tax Advisors in Shanghai. "In the most extreme cases, U.S. companies may move their regional hubs to Singapore."

The overall effect on Hong Kong might be mixed. "On the one hand, business volumes can be expected to fall as U.S.-China relations deteriorate," suggests Andrew Kinloch, Managing Director of Logie Group, an infrastructure-finance company in Hong Kong, and a Hong Kong Institute of CPAs member. "On the other hand," he adds, "intermediaries and advisers who can interpret both ends of the China-U.S. relationship will be even more in demand."

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Trump's abandonment of the controversial Trans-Pacific Partnership free trade agreement could see the rise of alternatives that include China and Hong Kong, such as the Regional Comprehensive Economic Partnership and the Free Trade Area of

American exports to China were worth US$116 billion last year, while imports from China to the United States were worth US$463 billion, according to the U.S. Census. The U.S. imports electronics, clothing and machinery from China. A lot of the imports are from U.S. manufacturers that send raw materials to China for low-cost assembly.

the Asia Pacific. "The TPP's failure could be considered a positive development for countries like China that are not part of the agreement," says Hu at UBS.

Moreover, Hong Kong could benefit from China stepping into any roles vacated by the U.S. if it pulls back economically and diplomatically from the Asia-Pacific region as part of Trump's "America First" mantra. "In terms of infrastructure spending, it (China) will redouble efforts on the One Belt, One Road policy, keen to show that it can actually deliver projects in its near abroad without the West," says Kinloch.

Hong Kong, he adds, would have the opportunity to contribute expertise that is still lacking in the Mainland. "We have technical skills in market research, project preparation and design, financing skills in structuring government support and interpreting tax regimes, legal skills in developing regulatory regimes and, when some of these deals go wrong, as they will, dispute resolution."

Leaving us guessing

Some of the apprehension is based on the lack of concrete information coming out of the Trump administration. "I don't think anybody has the faintest idea what's going to happen," says Beeson at Murdoch University. "Some people think this is Trump's genius at being able to get potential foes offside and being unpredictable."

One group in limbo are Chinese nationals working in the U.S. on so-called H-1B visas, a non-immigrant visa that allows American companies to employ foreign workers in occupations that require theoretical or technical expertise, including accounting, as well as architecture, economics, engineering, information technology, mathematics and sciences.

"Statutory modifications to the H-1B programme could have the effect of reducing demand, restricting access to H-1Bs by offshore outsourcing companies, and giving priority to higher-wage workers in science, technology, engineering, and mathematics occupations," says Brian Graham, Partner of K&L Gates law firm in Austin.

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Kinloch at Logie Group believes the current anti-immigration sentiment in the U.S. means it's unlikely that Hong Kong companies, despite their experience, will be invited to tender for a chunk of Trump's promised US$1 trillion infrastructure spending programme. "Given his 'America First' focus, I don't see foreigners winning a lot of this business," he says.

Of course, Trump's policies – when they are finally articulated – might not be necessarily put into practice. Mark Haefele, Global Chief Investment Officer at UBS Wealth Management, noted that investors needed to pay attention to Trump's "closed leadership style" around a small circle of advisers. "This strategy would likely produce greater uncertainty for markets," he wrote.

While the president can impose trade tariffs without an act of Congress, he and his ruling circle do not have an unfettered hand over major decisions. "President Trump, just as President Obama found, does not make policy on his own," says Leo Abruzzese, Global Forecasting Director at the Economist Intelligence Unit, a research consultancy, in New York.

Some of his policies have already spurred opposition from the other branches of the American system, such as the striking down by an appeals court of an order to restrict entry to the U.S. by people born in seven Muslim-majority nations. "There's something called Congress, there's something called the courts, there are lobby groups, there's the private sector, there's a lot of people he's not used to dealing with," Abruzzese points out.

Trump's more assertive trade policy reflects his "muscular negotiation technique," notes Thomas Costerg, Senior Economist of Standard Chartered Bank in New York. "Such technique is not without risks, however, as trade partners could escalate tension too." For those watching from Hong Kong, "Trumponomics" has a long way to go.