

Markets

How will Trump's presidency affect Asian trade?

Beyond the near-term noise, we don't think we are going to see a transformational upheaval in trade in Asia.

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When assessing the impact of the new US president-in-waiting on trade, the importance of overseas trade relative to GDP is not equal across all Asian countries.

China, India and the Philippines have a high proportion of exports going to US, but they are actually relatively closed economies; the apparent economic impact is less troubling.

Singapore and Hong Kong fall into the opposite camp. However, in both countries the overall scale of trade is predominantly due to transshipment activity, and the direct value-added of trade to both economies is relatively modest. Most of Hong Kong's manufacturing capacity was long ago "exported" to China.

What Trump has said

Aside from the numbers, clearly we need to look at the likely impact of a Trump presidency in the context of what he has actually said during the campaign.

Will Trump's plans come to fruition?

Clearly therefore, we are in for a very noisy few months. But there is room for scepticism about how much of this agenda will be executed for two reasons. Firstly, it is a very long list, which does not include the more domestic agenda items such as tax reform, repeal of Obamacare, Supreme Court, fiscal package, and secondly because the degree of real control Trump has in the House and Senate is open to debate.

(At this point we should probably remember Ronald Reagan's dictum that it is a rare president who gets to implement just three or four of his campaign promises, even with a friendly Capitol Hill.)

Nevertheless, we must assume a Trump administration will be anxious to deliver something to the core constituency. However, a few tangible, but not necessarily-that-material victories for his approach may well do the trick (e.g. successful bullying of Mexico, and a car plant being built in West Virginia rather than Puebla).

The path ahead for Asia

Our view is that beyond the noise, we are not going to see a transformational upheaval in trade.

Asia's competitive advantages should not rest on cheap labour, theft of technology or excessive subsidies, and in this sense the Trump agenda is on the right lines. However, the bulk of Asia's trade success does NOT rely on these factors, and low value-added exports are being increasingly squeezed out of the mix.

As income levels rise around the region, economies and good companies are moving up the value-added

curve, and unsurprisingly that is where we have our portfolio exposure.

Indeed, if the US does become stricter on sourcing, this will confer a competitive advantage on companies we own with good credentials in terms of social, environmental and governance practices. Trump is a businessman, and he will rapidly discover how embedded the supply chains now are between US and the outside world; in practice this will inevitably fetter his room to manoeuvre.

Finally, however, trade is not the only area of uncertainty in the Trump era. We note a number of other issues including immigration (a challenge to the Indian IT services model), defence (potential weakening of the counterweight to growing Chinese assertiveness in the region), and the implications of a stronger dollar/higher interest rates for Asia and (even more so) still-fragile emerging markets.

Short-term sell-offs due to trade concerns could be buying opportunities, but must be made in the context of these other ongoing uncertainties, particularly the latter. A stronger dollar and tighter liquidity comes at a very challenging time for China as it tries to balance the domestic imperative for continued growth with the need to manage an excessive and still growing stock of credit. This remains the key risk for the region.

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