Economic Watch

China | The impact of Biden's victory on Chinese economy and the Sino-US relationship

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The victory of Joe Biden in the US president election will have a far-reaching impact on the U.S.'s domestic and international policy. Particularly, Biden's presidency in the next four years will definitely have decade-defining consequences on the Sino-US relationship. In this report, we investigate the impact of Biden's victory on Chinese economy and the Sino-US relationship from the perspectives of the bilateral trade relation and technology competition, as well as the impact on China's financial markets etc. Some other important issues of the Sino-US relation going forward are also discussed, including human rights, ideological and geopolitical issues and climate change cooperation etc.

Regarding the Sino-US relationship, we believe that the long-term tensions will persist whoever is in the White House while the key difference will be the "approach"-while Trump's approach is likely to place more immediate pressure on China, Biden's is seen as more predictable, comprehensive and rule-based; however, for the short-term, a mitigation of the previous conflicts under Trump's administration is indeed anticipated.

We all know that ties between China and the US have reached their coolest point for the past decades during pre-election time with conflicts in almost every front under Trump's administration, signaling there might be some turnaround after Biden gets elected. After all, the two candidates adopt a very different China policy in their election platform. However, the caveats are noteworthy that Biden's election campaign manifesto has also promised to take a strong stance against China and has pledged to work with allies to pressure China through the multilateral organizations that Trump has eschewed. That means, being an experienced politician for almost half a century, Biden will absolutely go back to the multilateralism diplomatic strategy instead of unilateralism framework to deal with the Sino-US relation in the future, for instance, to unite with the traditional US allies such as Europe, Japan, Korea, Australia and large emerging market such as India to give pressure on China in multiple fronts.

First, in terms of the trade relationship, removing the existing Trump's nearly USD 400 billion tariffs on Chinese exports is not anticipated in the near term. Beyond this, we expect that Biden will bring the Trans-Pacific Partnership (TPP) trade agreement back which was passed under the Obama Administration but was then rejected by Trump when he became president in 2017. In addition, to promote World Trade Organization (WTO) reform is also one of his policy options. In our baseline scenario, we believe the tariffs imposed by Trump will be held at least in the short-term, although there might be some further rounds of negotiations with China subject to China's concession in financial market opening, intellectual property rights protection, human rights and the progress of the phase-one deal implementation, etc.

Second, regarding the competition in the technology field between the two largest nations, the long-term tech war and the ongoing technology supply-chain decoupling will be long-lasting. Unfortunately, the technology competition is more pessimistic than that of the trade relationship as the US will never allow China to dominate technology development in the future. Thus, we believe that the US new administration will maintain the restrictive measures on key technology fields such as AI, 5G, semi-conduct and other national security-related areas. Thus, the main impact on China will be concentrating on restraining China's technology innovation and acquisition, particularly the acquisition of core technologies from the US.

Third, Biden's victory will reduce the previous political uncertainties to a large extent and increase the predictability and continuity of policies on China, increasing the risk appetite of Chinese financial markets. After all, reducing uncertainties itself is good news for Chinese market sentiments. In particular, as there will be less "black swan" shocks from the US for the stock market, we anticipate a short-term bullish stock market in China with much less volatility. On the other hand, a soft RMB exchange rate appreciation is anticipated due to the two important policy options of Biden Administration: (i) the US new administration will most likely continue the ultra-easing monetary policy stance and zero interest rate throughout 2021 and 2022, maintaining a large interest rate difference with China, which is based on the Democrats' tradition of maintaining central bank independency; (ii) Biden's infrastructure stimulus together with the aggressive fiscal expansion will lead to a weak USD DXY trend, supporting RMB exchange rate. Last but not least, the Biden administration is not anticipated to relabel China as a currency manipulator which is predominantly a symbolic classification while China's manipulator status was dropped in January of this year. Hence, we do not expect the Biden administration to relabel China currency manipulator again in the future.

Fourth, the Biden administration will enhance cooperation with China in the fields of environmental protection, global healthy security and non-proliferation of nuclear weapons, while on the other hand give more pressure on some traditional barriers such as human rights and geopolitical issues. Given that Biden announced to rejoin the Paris Climate Accord and the World Health Organization (WHO), it is anticipated that he will enhance the cooperation with China on carbon emission and green economy etc. Other possible cooperation fields also include global healthy security and non-proliferation of nuclear weapons, etc. On the other hand, taking into account of the Democrats long-lasting "political correctness" on human rights and some geopolitical issues such as South China Sea, Xinjiang, Tibet, Hong Kong and Taiwan issue, these traditional hurdles of the bilateral relationship will remain and will be re-raised from time to time in the future.

Altogether, Trump's China policies will become the history, but they might be at least partially inherited as the bargaining chips of the new president Biden. Thus, we believe the traditional values of the Democrats party, together with the heritage of Trump's previous policies, will form the framework of Biden's China-related policy. Looking ahead, it is still a very bumpy road ahead on lifting the existing tariffs on bilateral trade and on technology supply-chain decoupling, while it is indeed anticipated that Biden will deal with the Sino-US relationship in a more predictable and rule-based manner. Under this circumstance, a cautiously positive attitude might be more adoptable regarding the short-term Sino-US relation; however, for the long-term perspective, we do not have sufficient reasons so far to deny any pessimism on the bilateral relationship going forward.

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