



Trump's New Deal and Its Impacts on Hong Kong's Trade and Investment

Senior Economist, Wang Chun Xin

Though Trump's victory in the presidential election was regarded as the greatest black swan event in the recent years, the result reflected the deep-rooted dilemmas that have long existed in the US after years of globalization, such as losing payrolls, unfair income distribution, increasing illegal immigration, etc. Americans sent a 'NO' vote to the traditional economic and political model. Thus, Trump's 'surprising' victory was indeed inevitable and rational. Trump's isolationism policy framework may greatly change the existing system of global trade and geopolitical landscape, which was formed since the World War II. It may have significant impacts to the economies of China and Hong Kong.

I. The major contents of Trump's new deal

Given the tepid recovery of the US economy since the global financial crisis in eight years ago, different types of conflicts have exploded together, resulting Trump's entry to the White House with new policy advocates. There are many similarities between now and the time when Roosevelt rolled out new measures in the 1930s. Following the outbreak of economic crisis in 1929, the US economy underwent a long period of great depression. Unemployment rate was high with social unrest. People were demanding for change. Roosevelt introduced a series of measures, which were later referred as the "New Deal", after he took office as the 32nd President. The core framework of his policies consisted of three Rs, namely Reform, Recovery and Relief. Judging from the policies that Trump advocated during the election, they were not only different from most of Obama's measures, but also different from those already in place for decades. To summarize, Trump's policies also include three core principles, namely protection, reform, and stimulation.

First is protection. Trade protection is a major feature of Trump's new deal. During the election, Trump put the protection of domestic interests and implementation of trade protectionism as his first campaign rhetoric. Concrete measures included renegotiation or withdrawal from the North American Free Trade Agreement (NAFTA), withdrawal from the Trans-Pacific Partnership (TPP), labeling China as a currency manipulator, imposing 45% tariffs on Chinese goods, with an aim to protect the domestic manufacturing sector and to create more jobs for low and middle class. These

claims helped Trump to win all the electoral votes from several traditional manufacturing hubs in the north eastern region, directly sending him into the White House. As his idea of trade protectionism deviates from the trend of globalization which has persisted over half of the century, it gives rise to escalating concerns and worries across the globe.

Second is reform, which refers to implementing supply-side structural reforms and returning to the doctrine of free market. This is another feature of Trump's new deal. The first measure is to cut the tax rates and simplify the tax regime. In response to the overcomplicated tax regime in the US, Trump pushed for eliminating the number of income tax brackets from seven to three, reducing the maximum tax rate from 39.6% to 33%, and cutting the corporate income tax rate considerably from 35% to 15%. Meanwhile, corporates would be able to enjoy a one-time tax holiday with tax rate cut from 35% to 10% if they repatriate capital back to the US. This measure would give large corporates, such as technology and pharmaceutical firms, a greater incentive to repatriate trillions of funds back to the US. The second measure is to abolish the ObamaCare and simplifying the government regulations. Because of ObamaCare proposal, the premium for most people soared, which also led to rising expenses for corporates. Therefore, abolishing ObamaCare would help release the burdens for consumers and corporates. At the same time, Trump proposed to accelerate the drug approval process. He also proposed to simplify government regulations. If one new regulation is enacted, two existing regulations must be eliminated. Monitoring on legislation requirement will be stepped up to avoid overcomplicated rules, which would bar the proper functioning of market economy. Furthermore, the market expects that after Trump taking the office, tight regulations in the financial market may be relaxed somewhat. Third measure is rigid restriction on the expansion of government headcount and executive power. He proposed to reduce the federal government scale gradually and lower the government expenditures by reducing federal workforce through attrition and a hiring freeze on federal employees.

Third is stimulation. It means stimulating economy through investment in infrastructure and energy exploration facilities. In view of the obsolete transportation network in the US and abundant energy resources pending for exploration, Trump proposed to enhance infrastructure investments, in which USD 1 trillion will be spent on transportation infrastructure; energy projects for domestic oil, natural gas and shale gas, which were valued at over USD 50 trillion; and resumption of the Keystone pipeline project between the US and Canada. The source of funding will come from Public-Private-Partnership projects and repatriating funds but not relying on additional the government expenditures. As a result, such measures will not have significant impacts on the US government fiscal conditions. This will be obviously different from Roosevelt's practice, which mainly rely on expanding government expenditures.

The aforementioned shows Trump will implement isolationism economic stimulation. On one hand, he will strongly protect the domestic market by implementing “America First” policies. On the other hand, he will simplify tax regime and regulations. He will also invest in infrastructure, attract cash repatriation and encourage corporate investments. He aims to double economic growth through implementing those measures. However, can Trump’s proposal be realized?

II. Comprehensive implementation will be challenging

On one hand, it is not easy to fully implement trade protectionism under the current globalized environment. As a cornerstone member of the WTO, if the US considerably raises tariffs for imported goods from other members, such practice would be constrained by the WTO rules. Moreover, other members may take retaliation against the US. Furthermore, the US would not benefit from trade war, leaving both sides a lose-lose ending. The renegotiation of FTA with Mexico would also be time consuming, and the result cannot be seen in the short-term. Furthermore, renegotiation would not be effective, since a lot of manufacturing payrolls which have been moved to overseas would not return to the US anyway. According to the 100-Day Plan that Trump has recently released, he announced to withdraw from the TPP on his first day in office and claimed that the TPP is a potential disaster to the US. TPP contains a lot of political considerations. The relevant rules are complicated and have yet to be implemented. Therefore, Trump’s announcement can be regarded as a gesture towards trade protectionism, but the impacts to international trade would be limited.

More importantly, the US Republican Party has long been a staunch supporter of free trade. If Trump proposes trade protection measures which are too radical, it may be opposed or constrained by the Party. The measures may turn out to be amended, or even rejected. That said, it should be vigilant to Trump’s view on trade protectionism, even the international trade system should not be destroyed, considering that it has been built by the US and operated for more than a half century.

Nevertheless, if Trump decides to take trade protection measures in the short-to-medium terms, a lot of measures can still be used under the WTO framework, including anti-dumping, anti-subsidy and other protection measures. In addition, there are implicit measures such as product safety, technology restrictions, environmental protection, intellectual property protection, labor protection, etc. In fact, the US quickly changed from advocating free trade to trade protection after the global financial crisis. Since 2008, the US has introduced over 600 trade protection measures against other countries or regions, accounting for 40% of all measures implemented by the G20 countries. In 2015 alone, it introduced 90 measures, the most in the world, and that was roughly one measure for every four days. The pace of introducing trade protection measures was unprecedented.

Even though many of these measures were taken in name of against unfair trade treatments by the foreign corporates, it was a kind of trade protection behavior in reality, with the aim of restricting foreign imports. After Trump taking office, the aforementioned measures, such as anti-dumping and investigation, may be adopted even more frequently, bringing uncertainties for international trade activities.

On the other hand, it is worth taking a closer look and being positive on Trump's reform, such as accelerating infrastructure, economic stimulations, etc.

First, substantial corporate income tax rate cut will improve their earnings considerably, boosting the appetite for corporate investment. By reducing the income tax rate, it helps increase family disposable income, in particular for the middle class, and enhances their consumption ability accordingly. It is expected that simple tax regime and low tax rate will remarkably stimulate the economy. Meanwhile, tax holiday, the measure for attracting repatriating funds, will enable the government to collect more tax revenues. Moreover, the repatriating funds can also be used for dividend payment, redeeming equity and increasing investments, etc. All these measures will provide impetus to the US economy and the equity market. And, this is an important incentive for the recent US stock rally.

Second, increasing infrastructure and energy development will inject new momentums to the US economic development. At the same time, it will create tremendous corporate investment and job opportunities. Take increasing infrastructure as an example, investing USD 1 trillion for improving infrastructure in the coming decade, it will not only increase the US GDP growth by 0.6 percentage point annually, but will also provide fundamentals for improvements on economic activities. Thereby, it will enhance the overall economic efficiency and facilitate economic growth.

Third, constraining the expansion of federal government executive power will be positive for controlling the government scale and strengthening the market dynamics. Both the Republican Party and Trump promote small government policy. Trump even has proposed strict rules on limiting federal employees and its power. Such measures ensure the federal government scale to reduce gradually, achieving the aim of decreasing government expenditures. Meanwhile, monitoring on legislation requirement prevents regulations from becoming overcomplicated and intervening normal market operation. Such measure helps enhance market efficiency.

As a result, there will be two extreme situations after Trump officially taking office. For one, stimulating economy through propelling reforms and infrastructure will gain supports from the

Republican Party and the public. The measures will be easily implemented with effective results. For another, the implementation of trade protection measures will be relatively constrained. It will be relatively hard for Trump to honor his promises during the election. Therefore, the implementing results of his proposals will be greatly discounted. According to historical experiences, on average only 66% of the measures proposed during election would be achieved after a new US president taking office. However, it is believed that such ratio for Trump will merely be approximately 50%.

In general, “America First” policy, the characteristic of Trump’s new deal, is positive for the US long-term economic development. Although GDP growth cannot be doubled, which he promised during the election, the growth will be more likely a percentage point higher than that during Obama period (that is 3% or above). Domestic inflation will climb following the faster economic growth. It is expected that the pace of interest rate hike will also accelerate accordingly. The US will gradually get rid of the “three lows” period, a period of low economic growth, low inflation and low interest rate. Instead, the US will enter a new era with moderate economic growth, inflation and interest rate.

III. Impacts on Hong Kong’s trade and investment

Trump’s new deal will bring pros and cons to the global economy. From the positive perspective, when the US economy growth accelerates, it will provide more momentum to the global economy and development opportunities for global investors. From the negative perspective, Trump proactively propels trade protectionism will bring more uncertainties to the global market, even under the existing framework of international trade. According to the WTO’s World Trade Growth Report, the global trade flows only increased by a mere 3.1% annually between 2008 and 2015, which was lower than the annual GDP growth during the same period. The rapidly rising and spreading protectionism was one of the major causes for the sluggish global trade. Trade protectionism will only strengthen in no matter formats after Trump taking office. This will put pressure on the stagnant global trade.

For a long period of time, Hong Kong has been the openest and multifunctional free port around the world. External trade has been the most important pillar for Hong Kong’s economy. Hong Kong has also been playing an indispensable role for the Chinese production base along with the global supply chain. In recent years, the US has been filing the greatest number of trade subsidy investigations against China. It is because the US attempts to rebalance the global economic landscape through re-industrialization. The original value chain and division of work model, with China acting as the global manufacturing base, are gradually breaking down. While Trump may not label China as a currency manipulator immediately after taking office, which he proposed during the election, there may be further constrains on trade against China. Trade disputes between China and

the US will keep intensifying, and the possibility of trade war at certain level cannot be ruled out. Therefore, re-export and offshore trading functions of Hong Kong will be undermined. The overall performance of Hong Kong's trade will be affected, which will constrain the development for trade support services. As a trading center in the Asia Pacific region, Hong Kong will face increasing uncertainties.

On the other hand, Trump's new deal will be positive for improving the US economy, as well as providing tremendous investment and development opportunities for Hong Kong's industrial and commercial sectors. At the same time, investment in the US by Mainland enterprises has been increasing. According to the Ministry of Commerce of the People's Republic of China, non-financial outward direct investment amounted to USD 165.5 billion for the first 10 months of this year, or increased by 53.3% year-over-year. Amongst this hefty amount, investment in the US surged by 173.9%. It is estimated that the fast growing trend will persist in the future. Many more enterprises will utilize Hong Kong as a base for outward investment to the US. Hence, this will bring more business opportunities to institutions which provide financial investment and professional services in Hong Kong.

It is worth noting that as the US will implement isolationism policy, there will be more rooms for China to propel the Belt and Road Initiative, as well as regional trade co-operations such as RCEP and APEC. Against this backdrop, China may gradually become the main driver for promoting globalization. This will strengthen Hong Kong's role as a 'super-connector', creating conditions for Hong Kong to further develop as a world-class city.

All in all, the coming Trump's new deal will have large impacts to Hong Kong, including pros and cons. Hong Kong needs to calmly cope with the development, and strengthens collaboration with the international community. According to the APEC Leaders' Declaration, released in the last APEC meeting in Peru, it emphasized the resistance to all forms of protectionism challenging the global trade and investment. It reflects the outcome of China's effort as well as the common vision for Hong Kong and most of the economies around the globe. Under Trump's new deal, globalization will continue albeit at a slower pace. While the direction for globalization will not be reversed, changes may be seen among the dominant forces of globalization and in the geopolitical landscape. And, Hong Kong needs to have closer and analyze these new topics in details.

主要經濟指標 (Key Economic Indicators)

一. 本地生產總值 GDP	2014	2015	2016/Q2	2016/Q3
總量 (億元) GDP(\$100 Million)	21,946	22,464	5,868	6,352
升幅 (%) Change(%)	2.6	2.4	1.7	1.9
二. 對外貿易 External Trade	2014	2015	2016/10	2016/1-10
外貿總值 (億元) Total trade(\$100 Million)				
港產品出口 Domestic exports	553	469	36	355
轉口 Re-exports	36,175	35,584	3,101	28,719
總出口 Total exports	36,728	36,053	3,137	29,074
進口 Total imports	42,190	40,464	3,509	32,484
貿易差額 Trade balance	-5,463	-4,411	-372	-3,410
年增長率 (%) YOY Growth(%)				
港產品出口 Domestic exports	1.7	-15.2	1.1	-10.2
轉口 Re-exports	3.2	-1.6	-1.9	-2.4
總出口 Total exports	3.2	-1.8	-1.8	-2.5
進口 Imports	3.9	-4.1	0.5	-2.9
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	4.4	3	1.2	2.7
四. 樓宇買賣 Sale & Purchase of Building Units				
合約宗數 (宗) No. of agreements	81,489	76,159	8,560	57,419
年升幅 (%) Change(%)	15.6	-6.5	90.6	-13.2
五. 勞動就業 Employment			2016/7-2016/9	2016/8-2016/10
失業人數 (萬人) Unemployed(ten thousands)	14.95	12.2	14.1	13.6
失業率 (%) Unemployment rate(%)	3.2	3.3	3.4	3.4
就業不足率 (%) Underemployment rate(%)	1.5	1.4	1.4	1.4
六. 零售市場 Retail Market			2016/10	2016/1-10
零售額升幅 (%) Change in value of total sales(%)	-0.2	-3.7	-2.9	-8.9
零售量升幅 (%) Change in volume of total sales(%)	0.6	-0.3	-2.7	-7.8
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	6,084	5,931	495	4,667
年升幅 (%) Change(%)	12	-2.5	-2.4	-5.7
八. 金融市場 Financial Market			2016/9	2016/10
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	775.6	775.1	775.5	775.6
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	13	15.4	10.7	10
M2	9.5	5.5	8.3	8.9
M3	9.6	5.5	8.3	8.9
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	9.7	6.7	9.1	9.8
港元存款 In HK\$	9.3	10.7	8.1	8.4
外幣存款 In foreign currency	10.1	3.1	10.1	11.2
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	12.7	3.5	3.5	4.5
當地放款 use in HK	12.1	3.5	5	6.3
海外放款 use outside HK	14.2	3.6	0.1	0.3
貿易有關放款 Trade financing	-1.4	-16.3	-7.1	-5.1
最優惠貸款利率 (%) Best lending rate (%)	5.0000	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	23,605	21,914	23,297	22,935