



ECONOMIC/THEMATIC RESEARCH: US PRESIDENTIAL ELECTION

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Donald Trump

REPUBLICAN

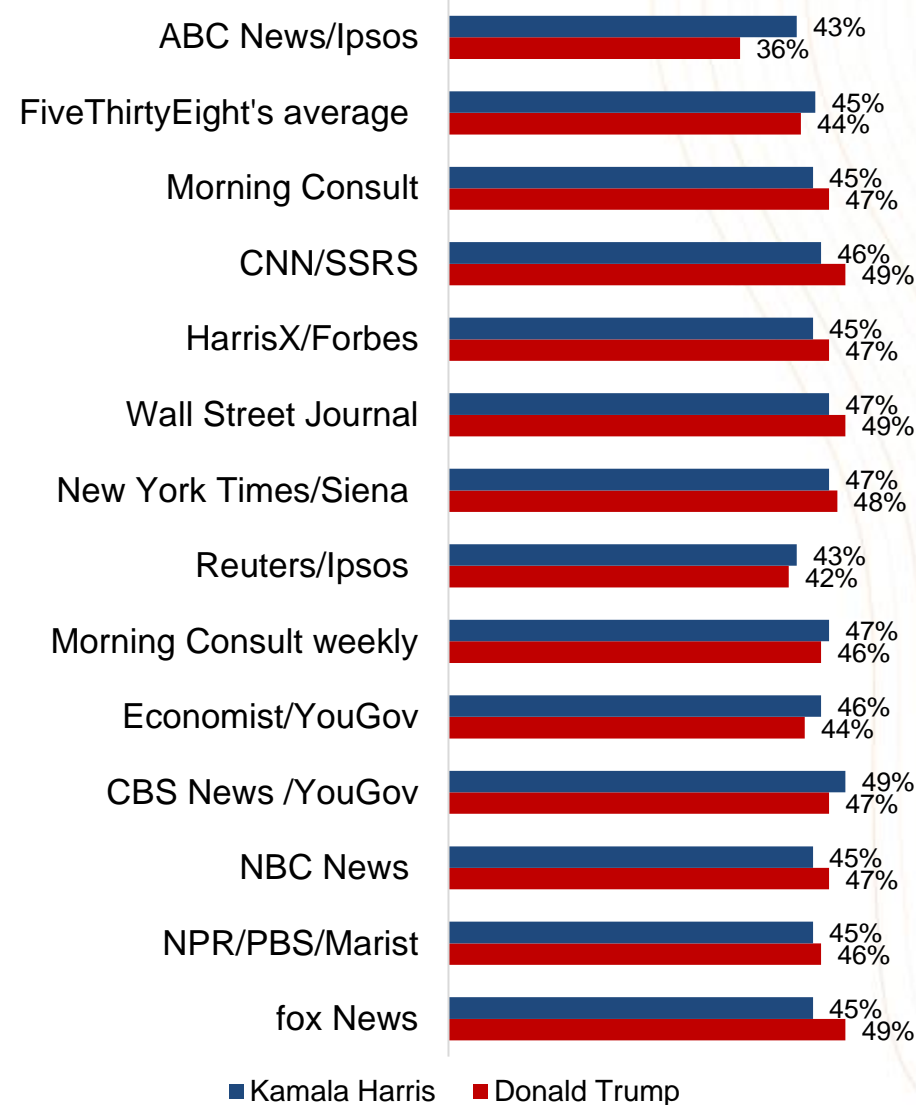
VS

DEMOCRAT



Kamala Harris

US Presidential Poll: Trump leads in 8/14 polls



Views/ Priorities/ Proposals:

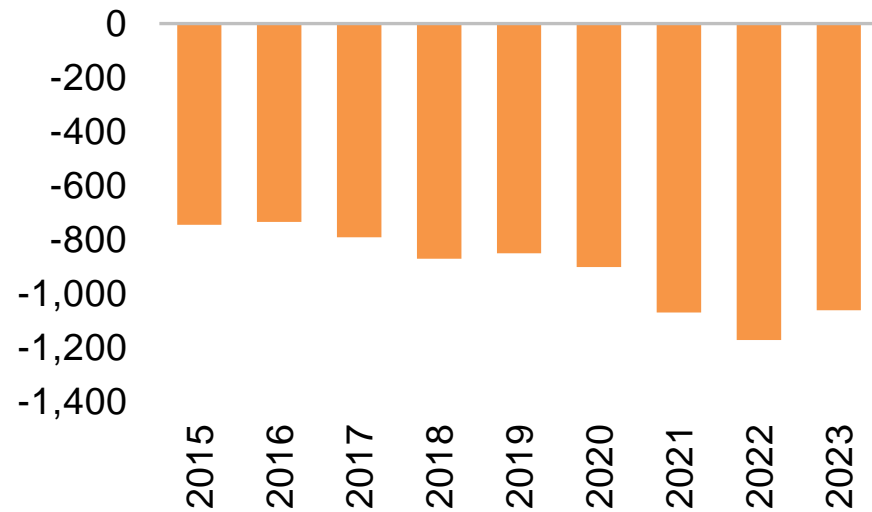
- Extend cuts from his 2017 Tax Cuts – proposed further cut in corporate tax rate from the current 21% to 15%
- A 4-year plan to phase out all Chinese imports of essential goods, as well as stopping China from buying up American assets & stopping investments of US companies in China
- Eliminate income taxes on tipped wages
- Plans to finish building the wall between the US and Mexico
- Curb both legal and illegal immigration but proposed “automatically” giving green cards to foreign nationals who graduate from US colleges
- Restore travel ban on individuals from several majority-Muslim countries
- Close the Department of Education and send all education matters back to the states
- Fund free online classes with funds seized from private university endowments

Views/ Priorities/ Proposals:

- Raise corporate income tax rate back to 35% – where it was before Trump’s Tax Law – and higher than the 28% which Biden initially proposed
- Expand Child Tax Credit to provide a USD6k tax cut to families with newborns.
- Eliminate taxes on tips and raise the minimum wage for service workers.
- Likely to maintain the tariffs on China as status quo, but is flexible towards changes in implementation of those restrictions as her connections to the tech sector could make her more attuned to US companies’ concerns
- Plans to build 3 mil new housing units in her first 4 years by incentivizing it with a tax break for builders who construct properties for first-time home buyers
- Consumer debt:
 - Student debt forgiveness
 - Ban medical debt from credit reports

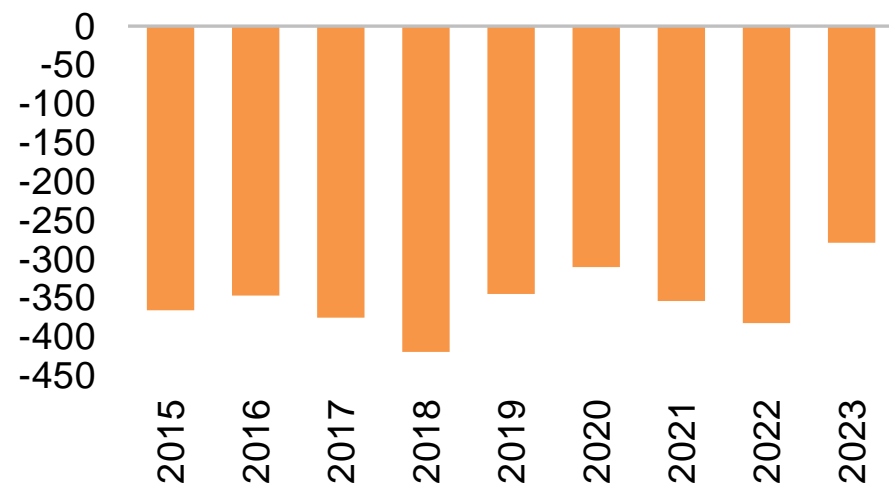
1 Did not really help to improve overall US trade deficit...

Trade of Balance US (USD bil)



2 ...but managed to reduce trade deficit with China

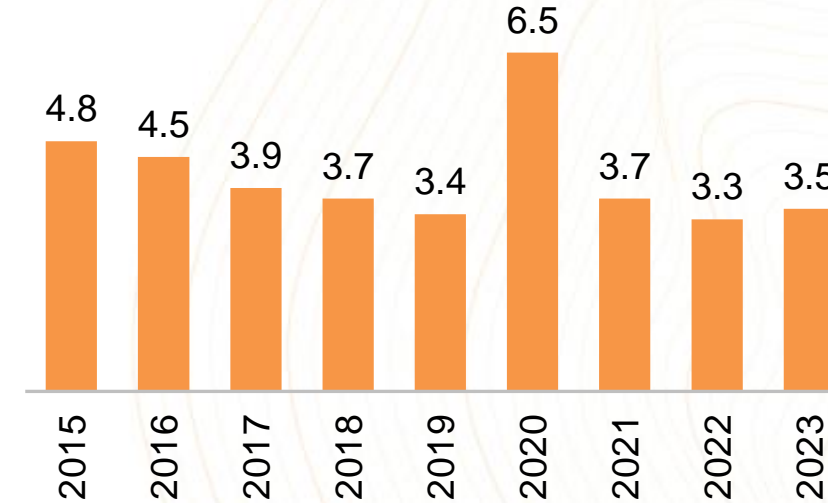
US Trade Balance with China (USD bil)



- Trump criticized US's trade deficits and vowed to reduce it by declaring trade war with Canada, Mexico, but predominantly with China.
- The US-China trade war began in July 2018 which aligned with the famous "Make America Great Again" slogan on the belief that the US was once a "great" country but has lost this status owing to foreign influence.
- While it seems unsuccessful in improving overall US trade balance, it has reduced trade deficit with China in 2019 and 2020 before Covid-19 struck the world.
- US trade deficit with China was trending downward in 2019 and 2020 before climbing up again in 2021 following truce deal and Covid-19 factors.
- **Current stance:** Trump has suggested a 4-year strategy to 1) eliminate Chinese imports of key goods like electronics, steel, & pharmaceuticals; 2) block Chinese firms from owning critical US infrastructure in energy, technology & agriculture; 3) will require them to divest any assets that pose a national security risk.

3 Unemployment rate improved...

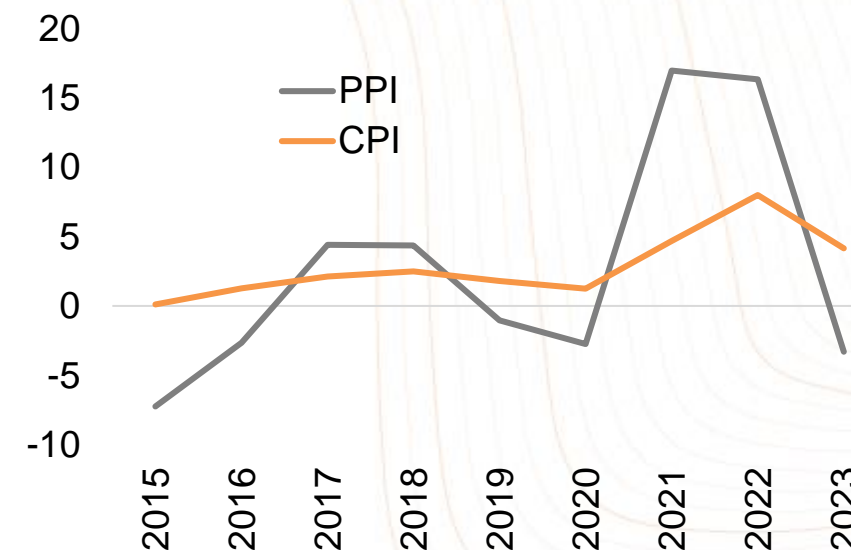
US Unemployment Rate (%)



- The US unemployment rate has been trending downwards even before Trump came into office. It continued improving to 3.4% in 2019 as a result of his policies (trade war & tax cuts) before surging again in 2020 due to Covid-19.
- GDP generally improved when unemployment rate declined. GDP growth in the first 3 years under Trump averaged at 2.6% YoY (UE: 3.7%) vs 2.5% (UE: 5.6%) under Obama's first 3 years in his 2nd term.

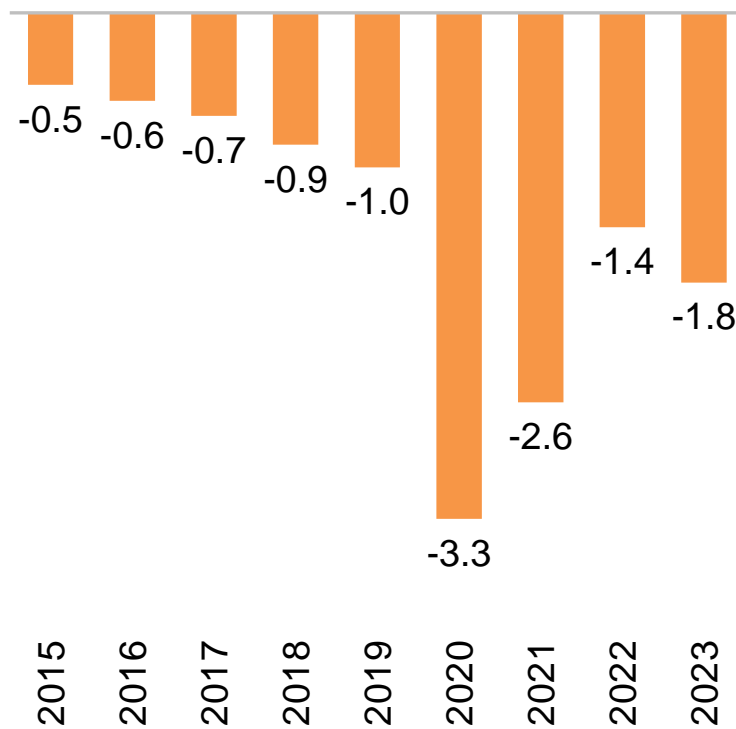
4 ...but caused prices to remain elevated

US PPI vs CPI (% YoY)

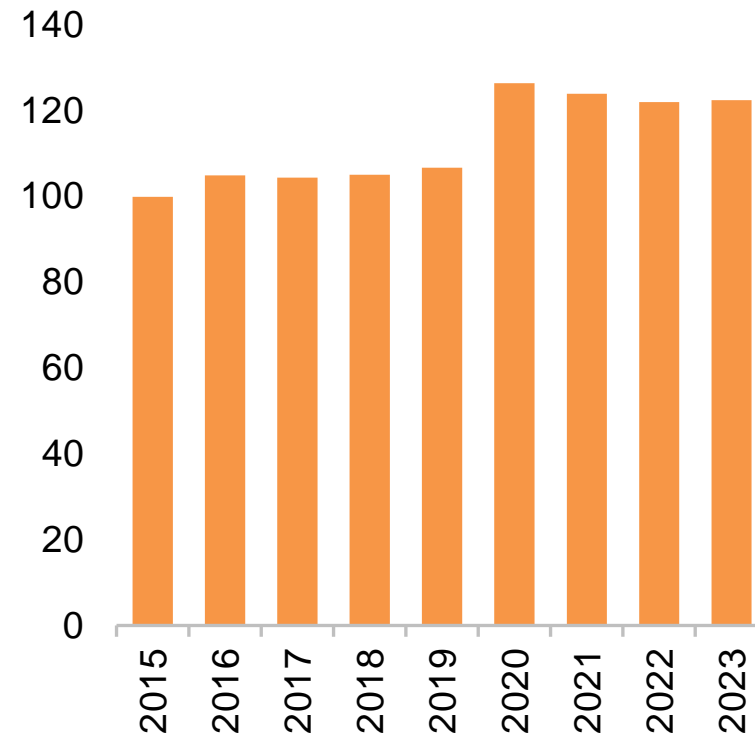


- While trade war didn't cause significant surge in inflation at both producer and consumer levels, it did keep the inflation elevated probably with some front-loading activities from 2016 onwards.
- PPI has been in deflation two years before Trump took the office. In 2017, it returned to an inflation of 4.4% which sustained until 2018. Likewise, CPI inflation was lower before Trump.

US Fiscal Deficit (USD tri)



US Government Debt (% of GDP)

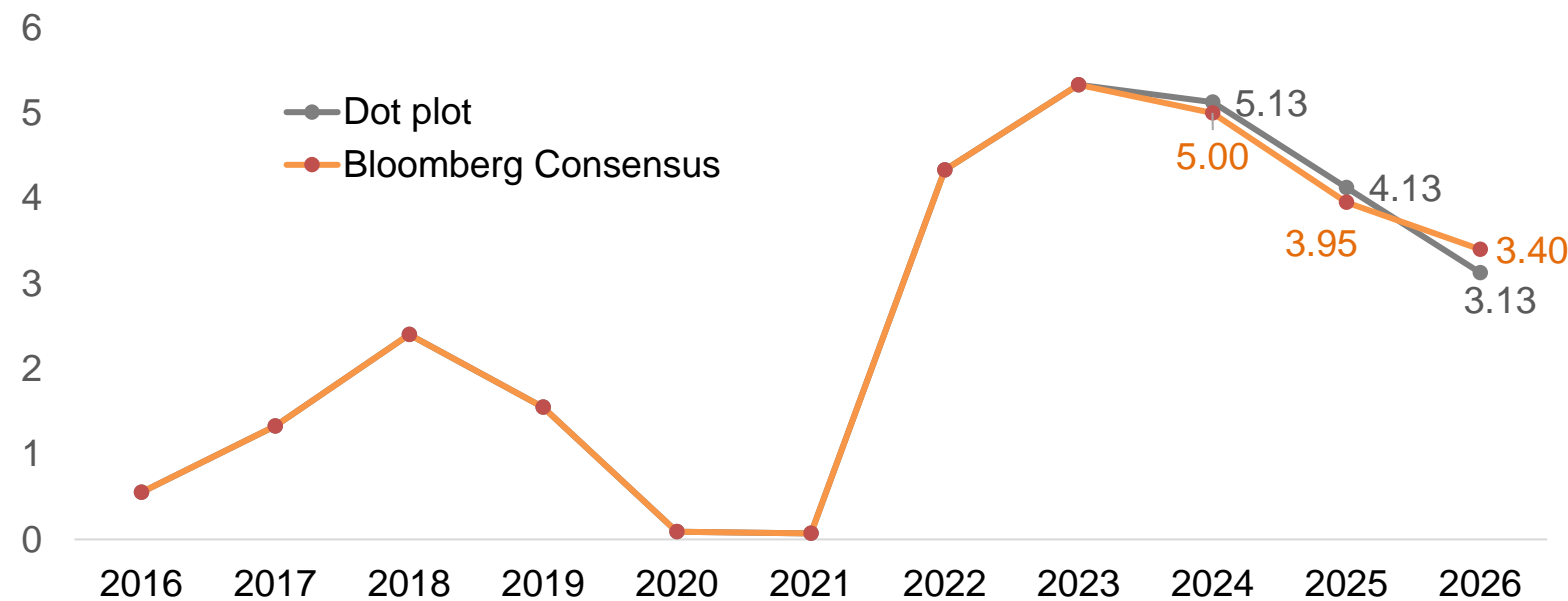


1

Trump's tax cut has increased fiscal deficit and federal debt

- Key changes under 2017 Trump Tax Law:
 - Took effect on Jan 2018
 - A single flat corporate tax rate of 21%, significant cut from 35%
 - Lowered many individual income tax rates (e.g. top rate bracket from 39.6% to 37% for the highest earners).
 - Many of the tax reform benefits will expire in 2025
- Trump Tax Law has caused fiscal deficit to continue widening and federal debt to increase. Debt increased by 6.2% YoY in 2018 (2017: 3.4%). Similarly, debt-to-GDP ratio went up to 105.0% (2017: 104.3%).
- **Current stance:** Trump has shown interest in making his tax rules permanent and even pledged to make further tax cuts. Congressional Budget Office has reported that fully extending the tax breaks could add an estimated USD4.6 tri to the deficit over the next decade (2023 fiscal deficit: USD1.8 tri or 6.5% of GDP).

US Policy Rate Expectation (%)



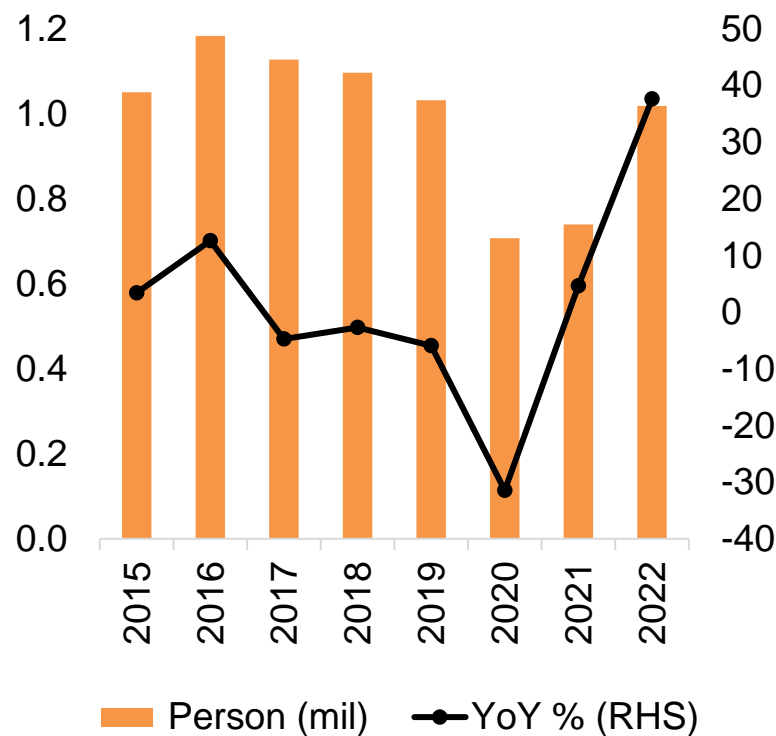
Note: Data as at 5 August 2024

2

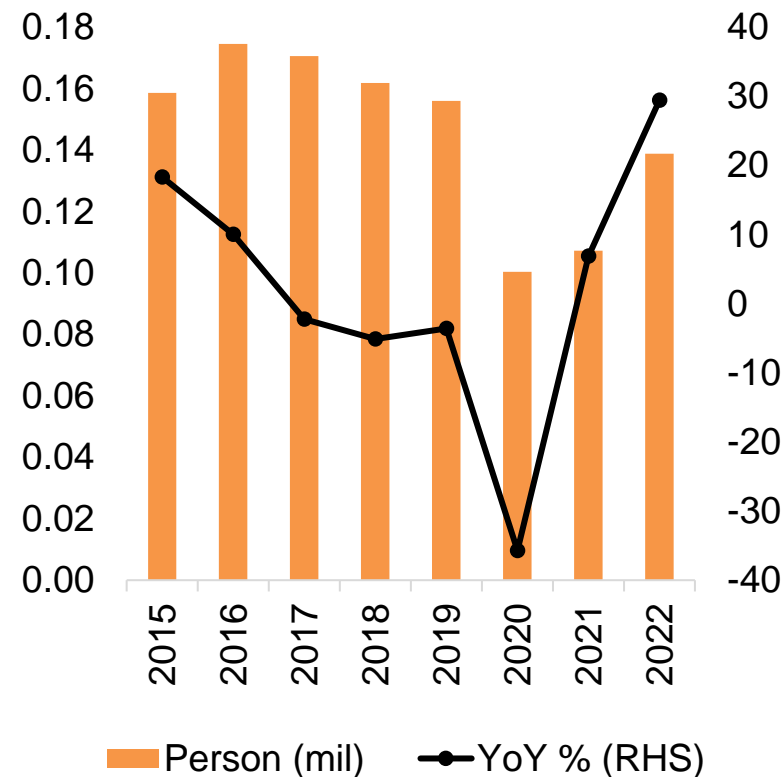
Trump has always been a supporter for low interest rate

- Donald Trump have long favored low interest rates because his standpoint favours businesses and it stimulates economic growth.
- Trump repeatedly attacked Jerome Powell for not lowering interest rates during his term.
- **Current stance:** Trump is against any interest rate cut before the presidential election because it will favor the Democrats. However, he vowed to pressure for lower interest rates once he is elected.
- Nonetheless, one cut seems to be possible in Sep (before the election) in line with the performance of economic data. Bloomberg consensus has signaled 1 cut in 3Q 2024.

Total Immigrant Admitted: All Countries



Immigrants Admitted: Mexico

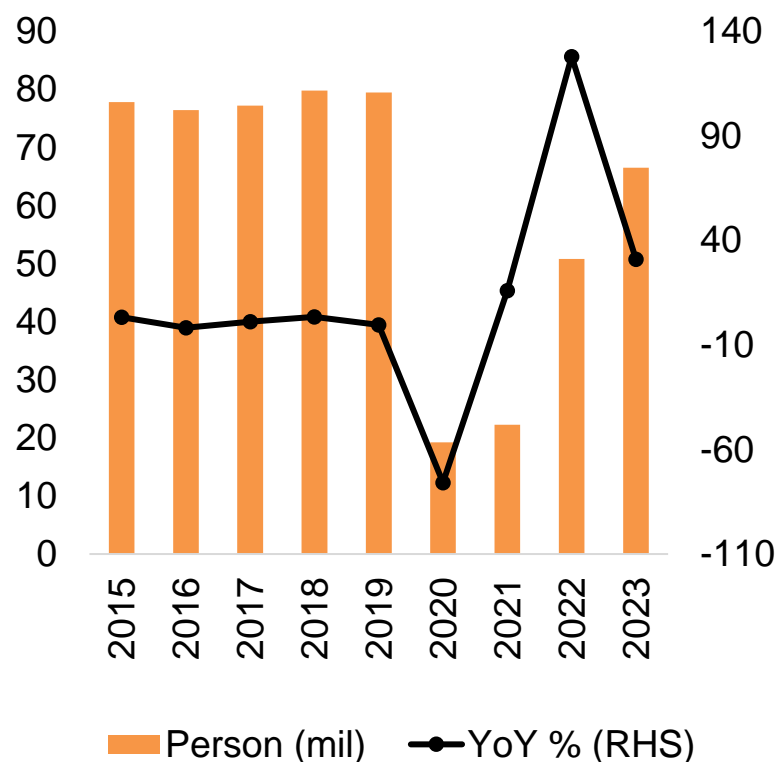


1

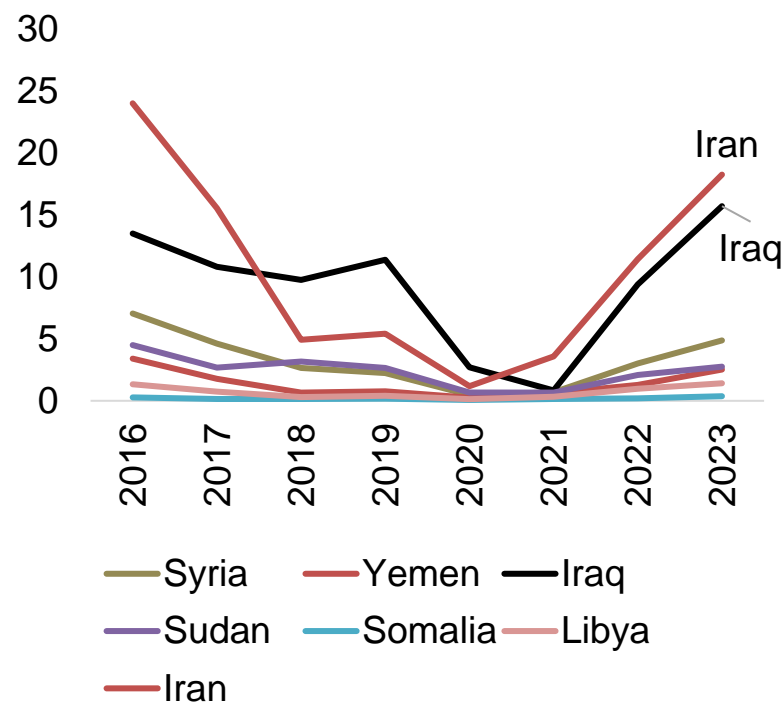
Trump managed to reduce immigrants particularly those from Mexico

- Overall immigrant admitted in the US has started to decline since the first year of Trump's term and continued until 2020, partially attributed to his hard-line immigration policies to prioritise American's jobs and safety. The decline was particularly large in 2020 as it coincides with pandemic as well.
- In line with overall figure, immigrants from Mexico also started to decline in 2017 until 2020. As Mexico already accounted for the largest share (13.6% in 2022) of legal immigrants to the US, Trump has been pushing for US-Mexico border since his previous term to at least keep illegal immigrants from entering the US. Construction of the wall started in 2018 but was halted by Biden in 2021.
- **Current stance:** Trump still wants to proceed and finish building the wall between the US and Mexico. Moreover, he wants to strengthen the border security by redeploying thousands of overseas troops and reassigning federal agents to immigration enforcement.

US Visitor Arrival



Numbers of Tourist from 7 Muslim Countries (Th)

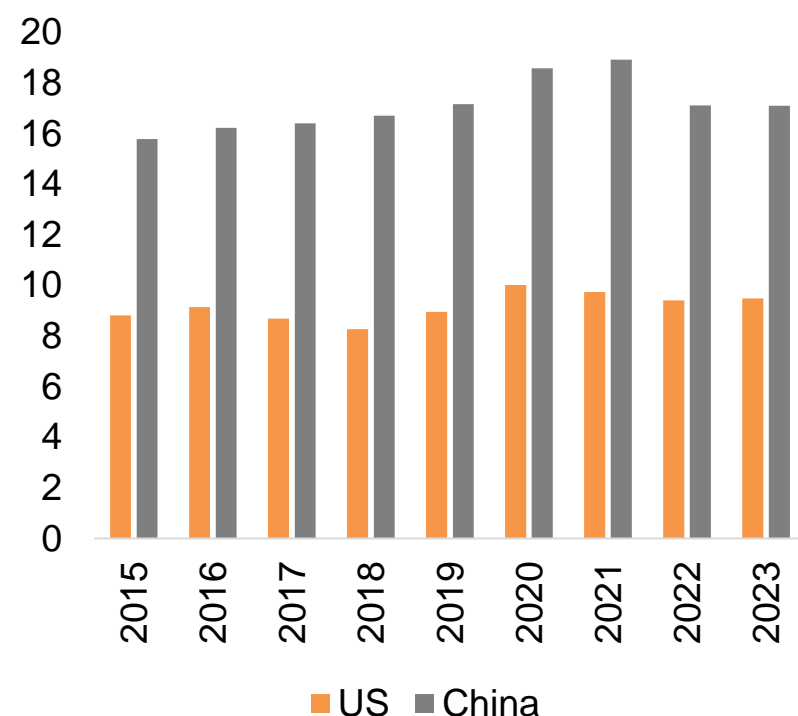


2

Travel ban didn't have significant impact at aggregate level

- In his previous term, Trump has intermittently banned several countries from travelling to the US which applied to Muslim-majority countries like Iran, Iraq, Libya, Somalia, Sudan, Syria, and Yemen as well as Venezuela and North Korea.
- This ban has caused a decline in tourists from most of the listed countries, however it **did not affect overall tourist arrival in the US** as these countries altogether accounted for **less than 1% of total arrivals**.
- While it did not affect the aggregate economic data, Trump's travel ban and hard-line immigration policies were said to have caused other issues such as jeopardising foreign relationship, doctor shortages in rural America and a drop in the enrollment of foreign students, among others. Biden has ended the travel ban with some exceptions.
- **Current stance:** Trump wants to reimpose the travel ban and even expand it.

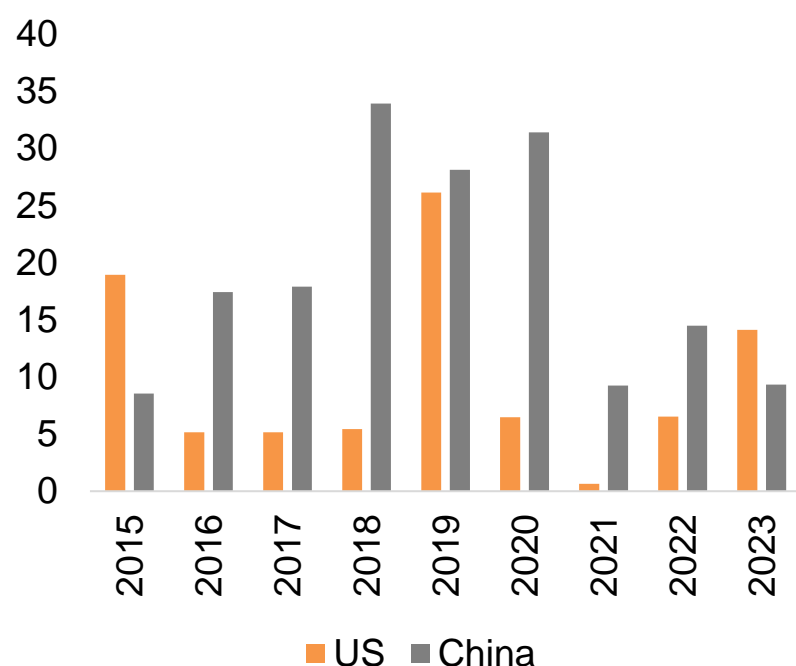
Malaysia: Share of US and China total trade (%)



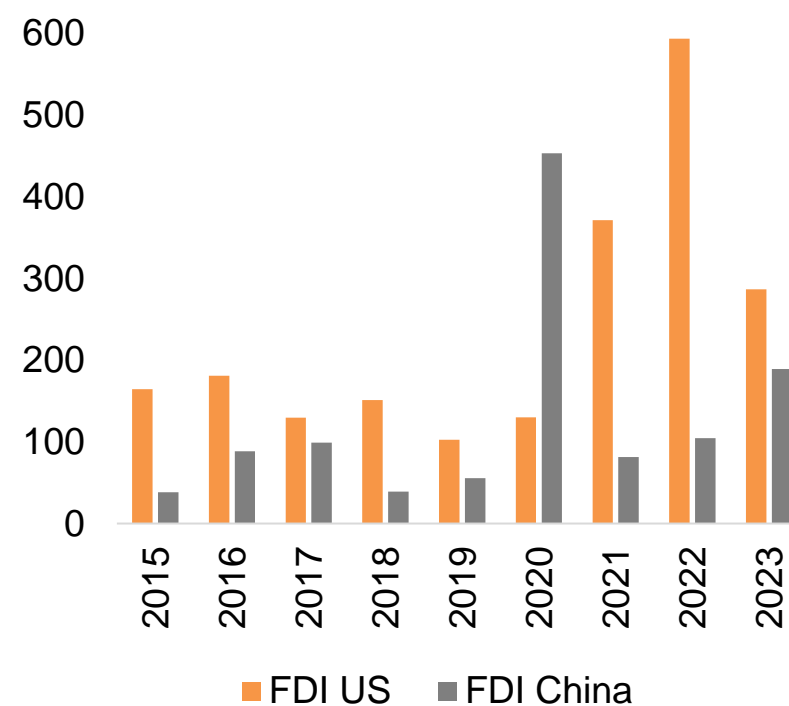
Malaysia export and import to/from the US (% YoY)



Mfg. Approv. Foreign Capital Invest. from US & China (% share)



FDI inflow from China and the US (RM bil)



1 US-China trade war has caused some changes to Malaysia's investment dynamic

- US-China trade war is one of Trump's policies that has affected Malaysia.
- **Share of the US's trade to Malaysia has started to rise in 2019**, deviating from a declining trend in the previous 2 years. In fact, Malaysia's export to the US accelerated in 2019 and continued until 2021. US may have sourced more products from Malaysia to fill the gap from China. Meanwhile, **share of China's trade to Malaysia has been trending upward even before trade war started.**
- **Investment trends** would be a more prominent angle to look at, to gauge the impact of US-China trade war on Malaysia. The share of approved foreign manufacturing capital investment from China to total foreign approved manufacturing capital investment has surged from 2016, partially in anticipation of trade war which happened in 2018. In 2018, the share almost doubled to 34% and remained elevated until 2020.
- In 2019, share of the approved foreign manufacturing capital investment from US increased almost 5x, nearing those of China. Looming tension between both countries at that point of time may have pushed these countries to invest in alternative countries in ASEAN like Malaysia to reduce disruption to the supply.
- In fact, starting 2021, there was a **major shift in Malaysia's capital investment** where most of it were **sourced externally (2021: local 33% vs foreign 67%). In 2023 (latest), the ratio was at 43% (local) vs 57% (foreign)**. Prior to 2021, it was dominated by local (2020: local 62% vs foreign 38%).
- As approved investment will take some time to be realized, strong FDI inflow from China was only observed in 2020, around 2 years after the initial surge in approved investment, followed by the US in the following years.
- If Trump returns to power, we may see some impact to our trade and investment with his more aggressive moves, but the impact is unlikely to be as significant as in the past as we believe both countries may have strategized to diversify over the past few years. The US is investing a lot in their own home country to ensure sufficient domestic production capacity.

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