Matthews Asia

Matthews Asia Perspective

Q&A: Trump Victory and the Impact on Asia

With the U.S. election finally over and Donald Trump elected president, Matthews Asia Chief Investment Officer, Robert Horrocks, PhD, provides his views on what this potentially means for investors in Asia and how this may impact the portfolios.

What do you see being the impact of a Donald Trump presidency on Asia?

At this point in time, it's hard to draw too many firm conclusions. While there is likely going to be much discussion around themes such as exports, tariffs, the Trans-Pacific Partnership Agreement (TPP) and potential fiscal stimulus measures, we believe the impact of these on Asia is going to be minimal.

Regardless of who is in the White House, the region's long-term structural growth story remains intact, focused on rising consumer wealth and increasing domestic consumption. It is in this part of Asia's economy that our portfolios are centered, rather than businesses that are much more reliant on changing economic cycles or dependent on exports.

In the immediate term, as markets digest the news, it's important for investors to remain focused on the long term and not be swayed by the hysteria and emotion that comes with events such as this. While uncertainty and conjecture are likely to dominate headlines over the coming days and weeks, we will continue to look beyond the short-term noise and focus on what's really driving the region's economy and its businesses.

The imposition of tariffs on some countries has been a common theme promoted by Donald Trump during the election. What effect is this likely to have in Asia?

Looking at some of Asia's largest economies, such as China and India, they remain domestic growth stories as opposed to being export-led. Therefore even if Donald Trump were to use executive orders to slap punitive tariffs on imports from Asian countries, we don't anticipate the impact to be as great as many are forecasting.

Taking China as an example, the impact is likely to be much less significant than most think. China only exports about 10% (by value) of its manufacturing output, with 90% consumed domestically. And last year, the U.S. accounted for only 18% of China's exports, with 16% going to the E.U. and 18% to Japan and ASEAN (Association of South East Asian Nations). Finally, net exports have been a small, negative drag on China's GDP growth for several years, with about 70% of growth coming from domestic consumption.

Domestic consumption and services (known as tertiary industries) have made up the largest share of China's GDP for five years now, accounting for just over 50% of GDP. And over the first nine months of this year, it accounted for about 70% of GDP growth.

Looking beyond China, while more export-driven ASEAN economies such as Vietnam, Singapore, Malaysia and Thailand are most exposed from a trade perspective, the growth in low-cost manufacturing will continue to be an important trend and we don't believe these jobs are likely to come back to the U.S.

The Trans-Pacific Partnership (TPP) has also been a topic of discussion during the election. How do you see a Donald Trump presidency likely to impact this?

Irrespective of who won this election, the Trans-Pacific Partnership would not have been ratified and the likelihood of Congress approving any future trade deals is extremely low. The impact of this on Asia will not be huge and even for smaller emerging and frontier economies that would benefit directly from TPP, capital investment decisions have largely been made regardless of the TPP outcome.

How could fiscal spending decisions impact monetary policy in Asia?

While there has been some discussion around potential fiscal spending and infrastructure investment by a Trump administration, the potential impact on Asia is likely to be minimal. Although it creates some additional uncertainty around U.S. monetary policy and expectations on inflation and the U.S. dollar, the outlook for monetary policy in Asia remains the same. Asia is unlikely to see rising rates. In fact, most Asian countries are seeing interest rates fall because of structural falls in inflation (India, Indonesia, Philippines, Sri Lanka), aging demographics that dampen long-term inflation (South Korea, Taiwan), and economies that are still recovering from the commodity bust (Malaysia, Australia, New Zealand).

Will the uncertainty of a Donald Trump presidency likely impact the U.S. more than other markets?

As the country begins to understand what a Donald Trump presidency will really look like, the greatest uncertainty is likely to be in the U.S. as it enters a new political environment. While there may be some short-term noise that impacts markets in Asia we don't expect that to have a lasting effect. As long-term investors, we use these headwinds and any dislocations in markets to take advantage of companies that we believe become under-valued.

Does a Donald Trump Presidency alter your views on investing in Asia?

No. I believe the attractiveness of Asia remains as strong today as it did yesterday. The region's strong fundamentals of savings, investment and faster productivity growth continue to make it a compelling investment proposition. The region's economy will continue to be driven by domestic demand growth and a Trump or Clinton presidency was always unlikely to change that course. While fiscal and monetary policy decisions made in the U.S. can impact markets in the short term, we see the impact of rising interregional ties through trade and investment links and a supply chain as being more important drivers of the region's economy over the long term. A Donald Trump presidency could help to cement this even further.

How is a Donald Trump presidency likely to impact the Matthews Asia portfolios?

The vast majority of the companies in our portfolios are focused on domestic consumption themes across the region, so there will be very little impact from any policy moves by President Trump. While a few companies are more connected to either the U.S. economy or potential policy decisions, there is still much we don't know about a Donald Trump presidency. Therefore the investment team will avoid making any knee-jerk decisions over the portfolios. We remain fully invested in companies with strong business models that offer long-term sustainable competitive advantages. Our portfolios continue to have a bias toward services and consumption-related companies, where we believe the impact of Donald Trump policies should be minimal.

For many investors it's all too easy to get swayed by the panic and emotion that can come from such an event. However, throughout our 25-year history of investing in Asia, we have learned to look beyond this and focus on the long-term picture and keep in mind Asia's strong secular growth story. The fact is that Asia already accounts for around 60% of global growth. Asia will continue to grow its middle class faster than the rest of the world. It will continue to account for the majority of new jobs created in the world. We believe that it is especially in these times of severe volatility brought on by unexpected outcomes that we have to focus on the structural story instead of short-term noise. While uncertainty will likely dominate headlines over the coming days and weeks, the fundamental outlook for the region continues to be as compelling as ever.

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