GLOBAL MARKETS FORUM

Join the conversation exclusively on Refinitiv Messenger

@ReutersGMF #RefinitivMessenger

Q&A-Biden likely to be less aggressive toward China, reduce tariffs; But U.S.' fundamental stance unlikely to change: Priyanka Kishore, Oxford Economics

President Joe Biden's administration is expected to forge less aggressive policies against China, but fundamental U.S. stance towards the world's second largest economy is unlikely to change, **Priyanka Kishore, head of India and South East Asia, Macro and Investor Services at Oxford Economics,** told the Reuters Global Markets Forum on Monday, February 8.

Kishore said she expected the United States to cut tariffs on $100 billion worth consumer goods imported from China by late-2021.

"On the trade front, it will be more strategic," Kishore said. "But on non-economic issues such as Hong Kong and Xinjiang, the current administration could actually be more forceful than Trump's."

Following are edited excerpts from the conversation:

Q: How do you see the dynamics of global trade changing with Regional Comprehensive Economic Partnership (RCEP), Belt and Road Initiative (BRI), and other bilateral agreements that have come into effect during Donald Trump's presidency, and now with Biden at the helm?

A: The tailwind has turned positive with these developments. The scare that globalisation is dead has definitely receded. So, the boost to sentiment is positive. In terms, of on-the-ground changes, we still need more clarity on the Biden administration's stance towards China to begin with.

Q: Do you see trade tensions between the U.S. and China abating from here? If so, how would that impact moves that have already happened in terms of supply chain shifts and the RCEP deal?

A: President Biden's China policies will likely be less aggressive and more predictable. Both sides will also likely to push for a successor to the Phase 1 trade deal. However, this will not materialize soon. More broadly, I don't think the fundamental stance of the U.S. towards China is likely to change under Biden. This administration will also likely to be more successful in putting together a common Western front that will challenge Chinese policies. So, supply chain migrations from China to rest of Asia, that were beginning to happen even before Trump's election, actually will continue at a measured pace.

Q: Can Biden easily back down on China, after the rhetoric built up by former President Donald Trump? What could a Phase 2 deal look like?

A: On the trade front, it will be more strategic. But on non-economic issues such as Hong Kong and Xinjiang, the current administration could actually be more forceful than Trump. I think we will have to wait and watch how the non-economic and foreign policy stances evolve. But we would probably go back towards the pre-Trump policies in these areas.

On (tariffs), the roll back is harder and is unlikely to happen in a big way. But talks are likely to be more strategic, as well as the messaging, with efforts made to achieve some goals. For instance, Biden has already mentioned a worker-centred trade policy. We have to see what that translates into reality and how the existing trade policies are fitted to that message. What we expect is that tariffs could be cut on around $100 billion of consumer goods imports from China by late-2021.

Q: Does the signing of trade agreements such as the RCEP in Asia Pacific, China's Comprehensive Agreement on Investment with Europe, etc. put more pressure on the Biden administration to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)?

A: Signing of regional trade agreements can have multiple effects on the U.S. government. Firstly, we think that they prioritise resolving trade frictions with their western counterparts. The economic payoffs would be smaller. But these issues are easier to resolve than those with China. They might also consider joining a modified CPTPP at some point. But that doesn't seem to be on the priority list right now and might not serve the U.S. interest well if China decides to join too. On tariffs, there has been some progress made under Phase 1 deal. While China did not meet its import targets completely, it largely carried out the structural reforms covered in the agreement. So, there is potential for some positive follow through.

Q: That was an interesting thought about the possibility of China joining the CPTPP -- do you see that happening, and the RCEP and CPTPP merging into a bigger umbrella trade agreement?

A: I think the ASEAN, which basically is the driving force behind RCEP wouldn't be keen to merge the two. The RCEP is less stringent than CPTPP on many fronts including labour migration, intellectual property, dispute resolution, etc. I think the RCEP members would like to keep those provisions as they are.

Q: How would the U.S. asserting its presence in Asia-Pacific, especially to counter China's ever-growing influence?

A: We have already seen alternate arrangements come in place in APAC to act as a balance to China – I'm referring to the 'quad' (Australia-Japan-India-U.S.). The U.S. could choose to let its influence be felt via its relationship with these countries. In this regard, the U.S. stance towards India is also being closely watched given the (past) camaraderie between Trump and (PM Narendra) Modi.

Q: Would you call India a gainer or loser by refusing to accede to the RCEP deal? What factors could shift the balance for it to join the fold at some point?

A: I think this question needs to be addressed in parts. From India's supply chain ambitions perspective, RCEP does pose a challenge as the common rules of origin only add on to ASEAN's attractiveness as a supply chain destination. On the trade front, it's difficult to assess gains/losses from RCEP this early on. The agreement does propose a long timeline of 20 years to eliminate tariffs and restrictions within the bloc. So, we will need more information on how implementation is progressing among member countries to have a clearer picture of this.

To answer the last part of your question, I think for now the Indian administration favours bilateral treaties where they have more bargaining power for domestic manufacturers. Doubt they will cede position in the foreseeable future. That said, RCEP has kept its doors open and India should consider taking advantage of the long timelines that are in-built in the trade agreement.

Q: What countries do you see as the beneficiaries of the RCEP deal, and what sort of benefits do you see emerging? What are going to be the geopolitical consequences of RCEP for ASEAN, China and the U.S.?

A: Well, as I said, quantifying the economic impact this early on is challenging. But given that 90% of the trade within the bloc will be liberalised in due course, it has the potential to deliver a notable boost to growth in the long-term. ASEAN economies, which were already benefitting from supply chains relocating, viz, Vietnam, Malaysia and even Thailand to some degree, are well placed to reap the benefits. But one shouldn't miss the bigger picture that this will likely deliver a boost to global growth as well, barring a big escalation in U.S.-China trade tensions, risks of which have receded for now.

I am not really the expert on geopolitics, but one reason why ASEAN was really keen on India joining RCEP was to balance powers. So, while the focus is on U.S.-China, recent events have actually opened up a space for India to play a greater geopolitical role in the region and ASEAN is keen for the balancing act. But for that to materialize meaningfully, the Indian government will have to ease its protectionist stance first.