



WHAT THE U.S. ELECTION MEANS FOR COUNTRY RISK:

The Implications of a Biden or Trump Win for the Indo-Pacific, the Middle East and Turkey, Russia, and Latin America

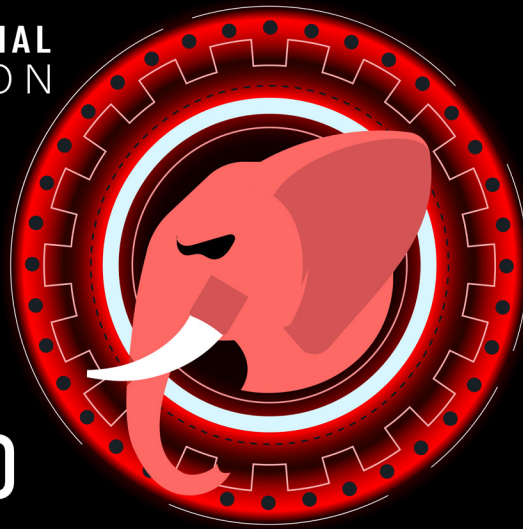




PRESIDENTIAL
ELECTION

vs

2020



INTRODUCTION



As we offer this white paper, with the U.S. Presidential election mere days away, the world is anxiously anticipating the result—with good reason. The clear distinction in the policies and world views of the two candidates promises vastly different paths not only for the U.S. but for its many allies and adversaries—paths that will greatly affect the economic risks and outlooks of those countries. What will another Trump term mean for Turkey? How will Biden view Brazil? From Mexico to the Middle East and from the Indo-Pacific to Iran, this paper is a guide to what is possible and probable under these divergent paths.

As this paper shows, country risks around the world have increased since the 2016 U.S. elections as a consequence of abrupt and significant changes in U.S. economic and foreign policy. Several trade pacts were re-written or dropped, the U.S. unilaterally withdrew from the Paris Agreement, national security investigations into exports were launched against allies and adversaries, a full-blown trade war was triggered with China, U.S. sanctions have been sharply expanded, and geopolitical uncertainty from the Middle East, South Asia, and the Korean peninsula have risen. Some of these developments have already had a material impact on important economies, trade relations, and financial markets, while the longer-term impacts of others are still unknown.

The outcome of elections in 2020 may again profoundly alter the trajectory of many countries and the global economy. Under President Donald Trump, the U.S. will likely persist in rewriting trade and foreign policy in a manner that is difficult to anticipate. Under challenger Joseph Biden, there will be a sharp departure from some

Trump-era policies, and a greater emphasis on rebuilding relations with traditional allies while re-engaging with existing multilateral institutions (e.g., WHO, World Bank, NATO, etc.). However, the U.S. will also not return to the status quo ante. The U.S. economic trajectory and global financial conditions can diverge significantly in different U.S. political scenarios.

This piece is a composition of views from the RMA Country Risk Steering Committee, senior professionals from the largest global banks based in the Americas, Asia, Australia, and Europe who are responsible for their banks' views on country risk and for implementing those views within risk management frameworks. The paper envisions how domestic economic and foreign policies under different post-election scenarios in the U.S. could affect country risk conditions abroad. We focus on four regions or countries—Indo-Pacific, the Middle East, Russia, and Latin America—where the consequences are likely the greatest. We focus on the two types of scenarios: 1) a Trump presidency that does not have strong congressional support (i.e. a high degree of policy gridlock which preserves much of the status quo), and 2) a Biden presidency that has strong congressional support (i.e. significant room for wholesale policy changes). We expect that the initial priority of either government will be on containing and recovering from the pandemic. This means that major changes to foreign policies may take longer than usual to enact, even if there is an immediate change in tone. Finally, we also recognize the potential for a contested election result that brings with it unique risks; we leave that outside the scope of this piece.



U.S. ECONOMIC POLICY

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In both scenarios we expect recovery from the pandemic to take priority, but expect a more aggressive, and probably infrastructure-led, stimulus plan to be implemented under Biden. Tax policy would be more progressive and less favorable to corporates. On balance, a Biden presidency should generate faster and more durable growth over the next several years. This scenario would be more reflationary and increase the risk of a faster normalization of U.S. interest rates and more support for the U.S. dollar in the medium term. These conditions can have material implications for countries whose borrowing costs and exchange rates are most dependent on foreign capital flows, though major exporters of industrial commodities could benefit from increased demand. Though not the result of explicit economic policies, an economic outcome of a Biden administration may be to dampen global oil prices.



INDO-PACIFIC – CHINA, EAST ASIA, AND SOUTH ASIA

*The **great-power rivalry** between the **U.S.** and **China...**and the frictions that come with it are unlikely to change in the near future.*

The great-power rivalry between the U.S. and China and the frictions that come with it are unlikely to change in the near future. Under Trump, a strong bipartisan consensus has coalesced around a much harsher stance vis-à-vis China on a range of issues: national security, economic, technology, humanitarian, and geopolitical. Independent of who is the next U.S. President, China will not easily make concessions in any area that threatens the foundations of its socioeconomic model or compromises its sovereignty and territorial integrity (including over Taiwan) because these factors underpin the Communist Party's legitimacy. The importance of presenting a strong and confident face to domestic and international audiences ahead of the 100th anniversary of the founding of the Chinese Communist Party in 2021 will further complicate the willingness of Beijing to compromise with the "West." Thus, China is incentivized to secure a détente that essentially preserves these sacrosanct pillars of its political economy.





Under a second Trump term, we would expect China hawks to pursue their goals impatiently and aggressively, leading to a much bumpier style of negotiation prone to unpredictable mutual reinstatement and escalation of tariffs and sanctions. This would increase economic uncertainty, including, among other events, the prospect of currency wars triggered by aggressive RMB devaluation. Political stress and conflict risks may also rise if China finds its economic, sovereign, and territorial interests facing a more coordinated and forceful global response. An accelerated and potentially disruptive integration of Hong Kong, or outright conflict related to China's greater territorial assertiveness in its wide neighborhood, are among plausible outcomes of a more belligerent engagement.



Under Biden, several bilateral issues will remain contentious, but a more conciliatory tone and greater patience would reduce the risk of sudden escalation or miscalculation. The main reason for this is that a Biden administration will probably not see China as an immediate existential threat and may prioritize climate change and other domestic issues, notably human rights abuses. His approach would also lean more towards multilateral containment of China. The U.S. engagement with the rest of East Asia, particularly with treaty allies Japan and South Korea, would therefore also prioritize strengthening cooperation on a breadth of issues related to China and security related to North Korea. In South Asia, a Biden presidency would seek to moderate some of the extreme Hindu nationalistic policies pursued by the Modi government, refocus attention on economic reforms, and reduce the risk of an outright conflict on India's borders with Pakistan and China.





THE MIDDLE EAST AND TURKEY

U.S. foreign policy towards the region shifted markedly under Trump, characterized by a more draconian stance towards Iran, closer cooperation with Iran's Gulf rivals, and more unbalanced support of Israel. This has exacerbated sectarian divisions across the region, accelerated a fracturing within the Gulf Cooperation Council (GCC), and led to rising conflict between the U.S. and Iran directly or by proxy. The deteriorating relationship of the U.S. with both Turkey and Russia has also led to their unconstructive involvement in regional conflicts, most notably in Syria.

A second Trump administration would likely persist in its current approach, which would keep the risk of a geopolitical accident in the region elevated. Despite the recent improvement in relations between select Gulf states and Israel, event risks will remain elevated because of strains within the GCC (the embargoes on Qatar will persist), the perceived abandonment of Palestinians, and an Iran that is increasingly feeling under siege.

A more pragmatic approach with Iran would prevail under a Biden presidency which, together with a more even-handed support of Israel, should temper regional strains. U.S. support for a new Iran nuclear deal accompanied by easing sanctions would immediately de-escalate tensions with Iran.



Turkey and Saudi Arabia stand out as potentially coming under pressure with Biden as President. Even as U.S.-Turkish relationships have deteriorated precipitously in recent years, Trump's relationship with Erdogan has forestalled Countering America's Adversaries Through Sanctions Act sanctions on Turkey despite rising frustration with Turkey across the U.S. political and security establishment. Biden would have no reason to prevent the implementation of sanctions if Congress decides they are warranted. Similarly, a Biden administration would more freely criticize Saudi Arabia for its human rights abuses and take measures to influence change. Actions could include reduced military cooperation and sanctions against parts of the regime for its alleged role in the killing of Wall Street Journal columnist Jamal Khashoggi. The result of this may be to moderate some of the more abrasive regional policies undertaken by Saudi Arabia (vis-à-vis Yemen and Qatar) and focus its leadership on more constructive domestic reforms that may improve stability within the nation.





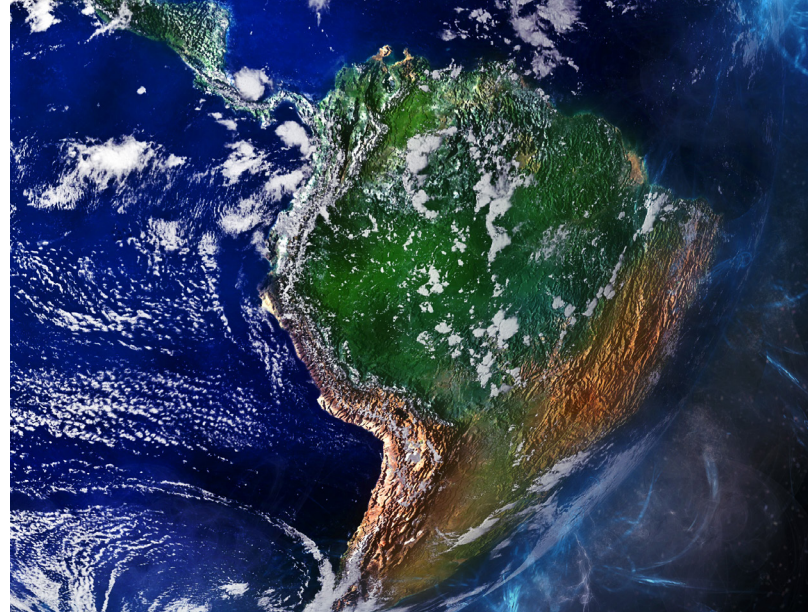
RUSSIA



The sharp deterioration in U.S.-Russian relations predates Trump's presidency, with the American political and security establishment generally aligned on the need to respond forcefully to Putin's Russia. Sanctions, initiated under the Obama administration, have amplified Russia's oil-collapse-driven downturn in 2014-15, dramatically constricted Russia's access to foreign capital, and reduced its growth potential. President Vladimir Putin's domestic political position has also become more fragile; he calculates his foreign adventures to distract from his domestic economic shortcomings. A key reason that sanctions have not become more severe is the apparent reluctance of Trump to be tough on Putin. Lenience from Trump may also have led Putin to feel he can pursue his geopolitical ambitions with some degree of impunity.

A Biden presidency would be unequivocally negative for Russia's economic and domestic political stability. The U.S. responses to future provocations from Russia would be more prompt and unconstrained. Biden would also likely restore the greater solidarity that existed within NATO before Trump became president, and this may further deter Russia's interventions abroad. If Putin is less able to use foreign crises to distract from the domestic economic shortcomings, his domestic position may come under threat. In short, a Biden presidency may inadvertently accelerate a regime change in Russia with unknown consequences for Russia's immediate neighborhood and global energy markets.





LATIN AMERICA

The tone and substance of America's political discourse has shifted substantially under Trump, though U.S. actions have not yet had a material or lasting impact on country risks in Latin America. We generally expect that to be true in the event of a Biden presidency, with some caveats. Some prevailing context is relevant for the largest economies: Mexico, Brazil, and Argentina. For a host of mainly domestic reasons, as well as the weaker global oil price environment, Mexico's country risk profile has deteriorated markedly in recent years, particularly under President Andres Manuel Lopez Obrador. Mexico's risk profile will probably continue to weaken regardless of who is president in the U.S., with some prospect of a slower decline under Biden. Brazil has been navigating a tepid recovery from its 2015-16 crisis and relations with the U.S. have had limited bearing on Brazil's overwhelming focus on domestic economic reforms. That will probably also not change with the U.S. presidential election, though the prospect of an earlier tightening of global financial conditions under Biden may be problematic for Brazil. Finally, the U.S.-led multilateral support for Argentina has been unprecedented under Trump, leading the International Monetary Fund to bend over backwards to provide financial support. Despite that, Argentina is mired in economic distress with poor prospects of a quick recovery. While a Biden administration would continue to favor an economically stable Argentina,

it is more likely to be scrupulous, particularly given the new political realities within Argentina. Tighter global financial conditions in the medium term would be particularly damaging for the country.

The Trump administration's engagement with Mexico has narrowly focused on trade and border security, and neither issue has so far had material political or economic effects on Mexico. The U.S.-Mexico-Canada Trade Agreement negotiations generated a lot of uncertainty, but the ultimate changes from NAFTA have proven to be incremental. Meanwhile, Lopez Obrador does not seem to have paid a political cost for giving in to Trump's demands on border control; it is difficult to see why relations would be any different under another Trump term.





A Biden administration would endeavor to broaden and deepen the bilateral relationship beyond just trade and migration issues, with limited impact on domestic political and economic conditions in Mexico. Personal relations with Lopez Obrador may remain strained, as a Biden government would focus on energy and security cooperation, protecting labor and human rights, and holding the Mexican president to account for the erosion of democratic institutions.

President Trump's strong rapport with Brazilian President Jair Bolsonaro has helped preserve stable relations, which will prove harder to maintain under a Biden administration

concerned about climate change and human rights. This stability had helped Brazil focus attention on its recovering from the 2015-16 crisis. The pandemic has revived concerns about critical economic reforms and renewed uncertainty over the sustainability of Brazil's public finances—both of these are more easily responded to if Brazil does not also have to contend with a foreign policy crisis. We expect that a Biden administration, because of its focus on climate change and human rights, would have a more difficult relationship with Brazil. Nevertheless, it would ultimately take care to help avoid an economic crisis in Brazil.



The RMA Country Risk Steering Committee is comprised of senior country risk professionals from the largest global banks. They are responsible for their banks' views on country risk and for implementing those views within their risk management frameworks. The views herein are those of individual contributors and do not reflect the view of any particular institution.