



US Politics Watch A Pivotal Election

An ING report in conjunction with Oxford Analytica
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Contents

A transformative presidency	4
<hr/>	
Scenario 1. Franklin Delano Biden - Democratic Trifecta	7
Policy impacts	9
<hr/>	
Scenario 2. Two years of gridlock	16
Policy impacts	18
<hr/>	
Scenario 3. Trump recovery	22
Policy impacts	24
<hr/>	
Conclusion: What next for the US and the world?	36
<hr/>	
Disclaimer	39
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A Pivotal Election

The US Presidential Election on 3 November will be one of the most significant in the history of the United States, and certainly the most consequential in decades.

The campaign has been upended by the Covid-19 pandemic, with President Trump's own infection barely a calendar month before polling day just the latest twist in the race. It brought a brief suspension of the rancour and partisanship that has characterised the campaign but the impact on voter behaviour of this unexpected reset will turn on the strength of the President's recovery. He will campaign virtually from quarantine in the White House until he is cleared to resume appearances at the large rallies that have become his trademark.

In the meantime, President Trump has been able to present himself as hastening back to work to lead the country having gained personal experience of how seriously to take the virus. Should it prove to be the case that he has declared his recovery prematurely, and he is unable to carry on to Election Day, it would mean electoral turmoil. Vice-President Mike Pence, as next in line of succession, would assume the powers of the President for as long as the President was incapacitated or until the expiry of his term on 20 January 2021 (see the box).

At the same time, it is becoming increasingly likely that the outcome of the election will not be known on election night, as is customary, because of the high volume of mail-in ballots that will need to be counted. Those mail-in votes, which many voters are using because of the pandemic, may be the focus of legal challenges by the Trump campaign if the President makes allegations of electoral fraud following an apparent Biden victory.

The 20th amendment to the Constitution specifies a hard deadline for swearing in a new President on 20 January, following the seating of the new Congress on 3 January. The new Congress has to count and affirm the Electoral College votes from each state on 6 January. Legal challenges to the popular or Electoral College vote in any state, which would ultimately be decided by a conservative-leaning Supreme Court, will have to be completed by then.

Requirements that Electoral College electors reflect the popular vote in their state are not a constitutional mandate but are set by state law. In June, the Supreme Court ruled that states have the right to require their electors to vote for whoever wins their state, but only 33 states and the District of Columbia have such a requirement. The Court's ruling was so strong that a 'faithless electors' revolt in any other state would trigger a constitutional crisis.

Trump has cast doubt on whether he will accept the outcome of the election, or at what point he would do so. This has raised questions over the transition to an incoming Biden administration, and the extent to which the lame-duck Congress and an outgoing Trump administration might use the period between the election and the inauguration to put in place policies that would bind or hinder a Biden White House.

In this latest update, Oxford Analytica and ING Group team up again to examine three scenarios for US politics in 2021 and beyond.

A transformative presidency

Since his election in 2016, Trump has pursued his agenda while less constrained by established norms than any President since the late nineteenth century. Whatever the long-term impact, this approach to governing has made his presidency transformative.

Having taken office with the strong backing of a party eager to regain the White House, Trump has remade the Republican Party in his image and brought it significant victories, including a major tax cut in 2017 and tighter conservative control across the federal court system. He has put national self-interest at the forefront of the country's trade and foreign policy, which have become more mercantilist and unilateralist respectively.

These changes are all the more remarkable given that Donald Trump has been the most consistently unpopular President in modern times. Yet no President has disrupted the system more effectively.

The prospect of a second Trump administration makes this election pivotal for the future of US politics. But it also has implications for the country's engagement with the rest of the world, and for the future of the international rules-based order. A Trump re-election would reinforce the United States view of its diplomatic and trade relations as ones of rivalry between great powers, with allies only seen as allies when they are useful and supportive of US national interests. A Biden presidency would be more multilateralist, repair relationships with long-standing allies and re-engage with multilateral institutions shunned by Trump.

Four more years for Trump would also deepen his dominance of the Republican Party throughout the United States and give him greater leeway to pursue his agenda. By contrast, a Biden victory would place in office a party that not only has a different policy agenda, but also treats Trump's actions as a warning sign for democracy in the United States -- and is committed to structural reforms to prevent another President from being so disruptive.

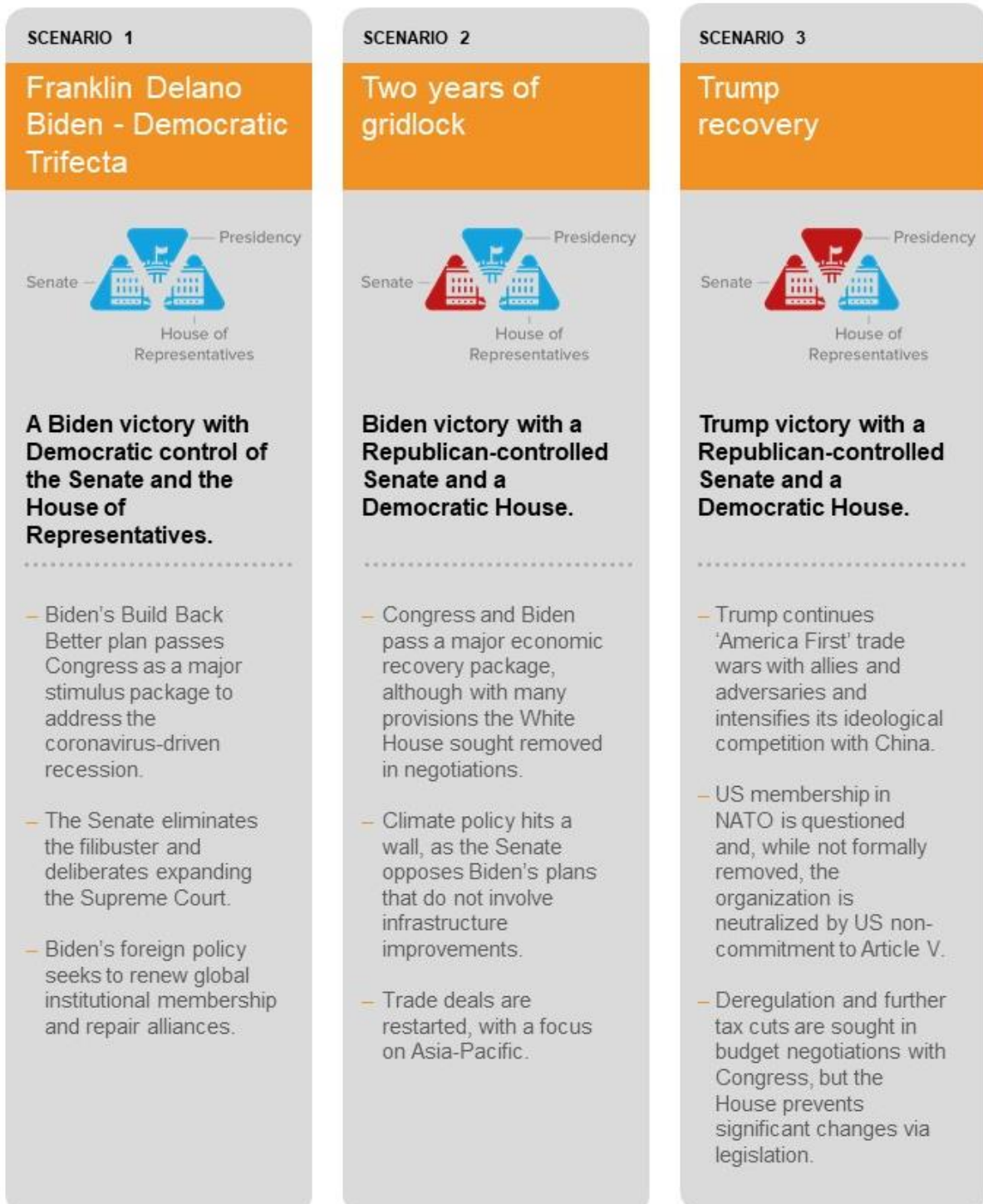
Even out of office, however, Trump's legacy — and voice — will be powerful, not just for the Republican Party, but for the United States' place in the world. One of the biggest risks of a Biden presidency is that it would try to turn the clock back four years and miss the fact that the world has moved on during the Trump years.

An election that sets the policy scene for the next decade

In the next decade, as the climate warms, China 'rises', and the global order moves towards multipolarity, the role of the United States will be powerfully shaped by the outcome of the upcoming Presidential and congressional elections.

The three scenarios show us different political landscapes that could range from, for example, the immediate passage of Biden's version of the Democrat's Green New Deal to a Trump administration that deregulates the fossil fuel sector even further.

Three Scenarios



Source:

This report aims to act as a guide to what the election in November may mean for the months and years ahead. By exploring the nuances of the different scenarios, we aim to identify what matters – and what it all means for international trade, technology, climate, foreign relations, and politics beyond 2020. This year's election is also unprecedented in that, according to opinion polls, for the first time a majority of Americans plan to cast their vote before Election Day, [using a number of early voting options](#).

Oxford Analytica has teamed up with ING to explore these and other key issues related to the election. The report forms part of our joint thought leadership series [US Politics Watch](#).

In the event of the death or incapacitation of a candidate

The Democratic and Republican parties can choose a replacement in the event that their presidential nominee dies or withdraws before Election Day. The problem now is that it is too late for a new candidate's name to go on the ballot, even assuming new candidates could be agreed in short order. The papers are already out; millions of people have already voted.

Congress could pass legislation to delay federal elections (but not extend the term of the presidency and vice presidency, which constitutionally end on January 20, 2021). It is highly unlikely that Congress would take such action. Should a delay occur, however, beyond 20 January, the President Pro Tempore of the Senate, who is currently Chuck Grassley, a Republican from Iowa, would take over as interim President because the third in line, House Speaker Nancy Pelosi, would have been technically out of that office from 3 January until being re-elected by the new Congress. Assuming the almost certain scenario in which the election goes ahead on 3 November as planned, with a deceased or incapacitated candidate's name on the ballot, a mish-mash of state laws would govern the process as elections in the United States are a state rather than a federal responsibility. It is safe to say it would be turmoil.

Voters in a Presidential election are not technically voting directly for a President and Vice-President but for the states' electors who will cast their votes on behalf of their states in the Electoral College. The laws governing the duties of electoral voters in such circumstances vary widely, and in some states do not exist at all. Some state legislatures could choose instead to appoint the electors, relying on an interpretation of Article 2 of the Constitution covering the occasion of voters being unable to make a choice. That would doubtless be tested in the courts if, say, a Republican legislature in a state that voted Democratic appointed electors who would vote contrary to the popular vote.

The Supreme Court earlier this year ruled that states could mandate that their electors were bound to reflect the outcome of the popular vote, and not be 'faithless'. A majority of states (33 and the District of Columbia) have such laws, but not all do, including one battleground state, Pennsylvania. The Court also left the specific circumstance of a deceased candidate open.

Assuming that out of this chaos each state is eventually able to send an electoral vote count to Congress for tallying on 6 January, there is still a possibility that no candidate will command a majority. For example, the party of the deceased or incapacitated candidate may be split on a replacement, or faithless voters hold the balance of votes.

In that event, the House of Representatives will hold a run-off election among the three who received the most electoral votes. Each state's House delegation gets a single vote regardless of the number of districts each state has. Note that this would be the new House sworn in on 3 January, which will reflect the Congressional voting in November.

Scenario 1. Franklin Delano Biden - Democratic Trifecta

In our first scenario, former Vice President Joe Biden is sworn in as the country's new President on 20 January 2021. Standing behind him is Democratic Senate Majority Leader Chuck Schumer and Democratic Speaker of the House Nancy Pelosi. For the first time since 2010, Democrats have unified control of Congress and the Presidency. Staffers are busily preparing memos on the raft of legislation that they are seeking to pass in the first 100 days of the new administration.

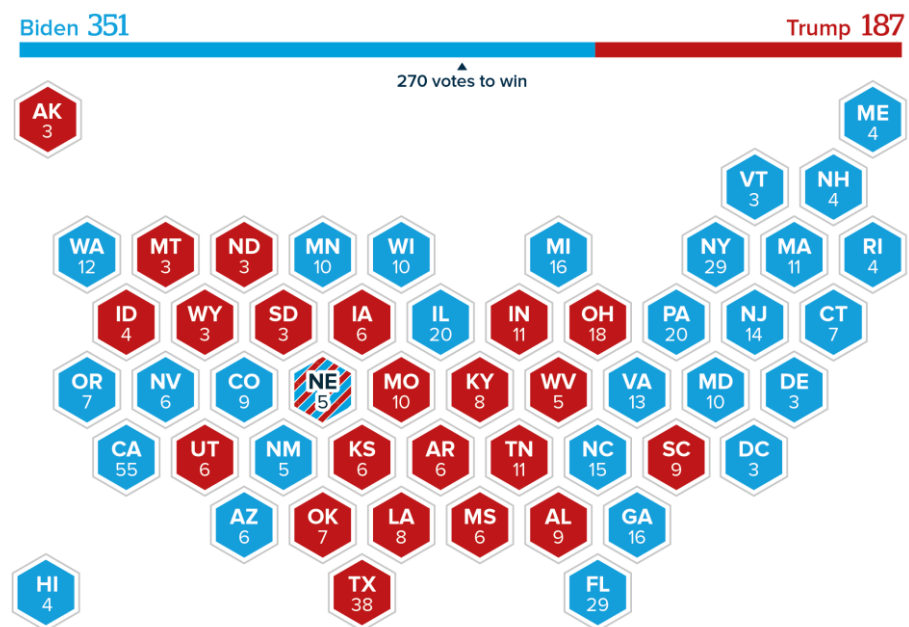
As a result, US politics could be drastically transformed by the most progressive set of policies since the New Deal. While some of these may be constrained by a conservative Supreme Court, that conservative majority could be changed by the end of the year if new seats are added to the Court – something that the Democrats would be able to do in this situation.

How this happened

The election of Biden and a Democratic Senate was, in retrospect, obvious.

According to *The Economist's* forecasting model, Biden became the candidate favoured to win in April and by June had an 86% chance of winning. Biden built a strong advantage with the electorate that Trump never reversed as the Democratic challenger kept his focus on Covid-19. Trump's efforts to switch the focus of the election to law and order, the economy and Biden's abilities all were derailed by the former Vice President's solid performances and the President's contraction of Covid-19, which kept him off the campaign trail and brought the pandemic -- and his handling of it -- back into the national conversation. While Trump contested the election outcome, Biden's lead was so wide that nearly all federal officials quickly accepted the results and the transition started quickly.

Scenario 1: Presidential results



Source: 270TOWIN

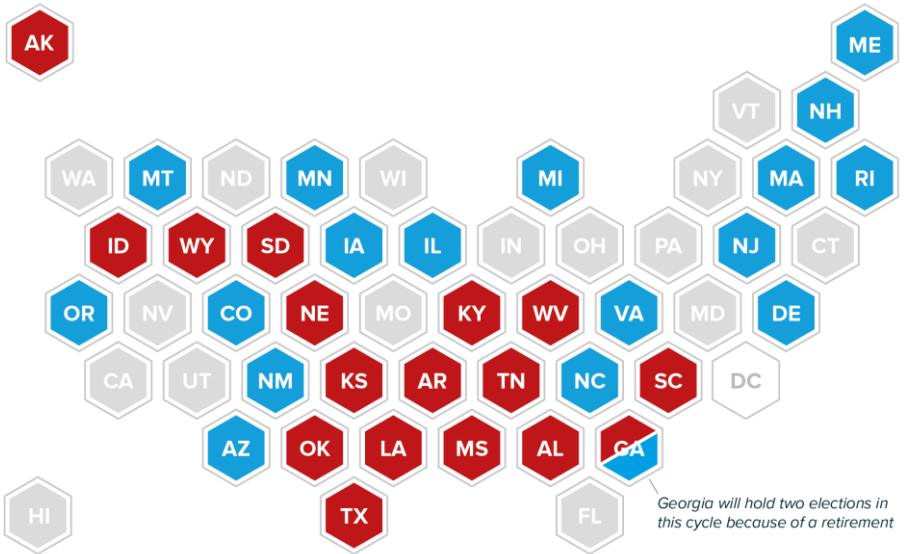
Scenario 1: **Senate results**

Democrats **53**

Republicans **47**



Independents caucusing with the Democrats



Source: 270TOWIN

Policy impacts

International trade and investment

US-China trade: tensions continue

Biden has criticised Trump's tariffs on China, called Trump's decision-making on trade policy "short-sighted", and has been pressured by Democratic lawmakers with trade-dependent constituencies to pledge that he will remove many of the tariffs imposed by Trump. Those placed on allies or on products critical to other priorities (such as solar panels) would be lifted rapidly.

However, Biden has cast his criticism of Trump's trade war as a tactical mistake, rather than a strategic error, on the grounds that it distracts from broader disagreements with Beijing and prevents other countries from joining a "united front" against China.

Biden, along with other Democrats, has criticised Beijing less for the trade imbalance between the two countries and more for China's industrial practices, intellectual property theft and human rights abuses. This suggests that Beijing may not see the 'trade war' scaled back by a Biden administration, as it would hope, but taken in a different direction. For one, Biden may try to re-join the Trans-Pacific Partnership. It was formed in part as a geo-economic counterweight to China during the Obama administration and many of its architects and supporters will be in a Biden administration.

A Biden government would not make economic and technological de-coupling of the United States and China an explicit policy goal, but continuing the contest for next-generation industrial leadership will push the world further towards a point where a choice is needed between US-led technology (or technology that can be sold in the United States) and Chinese-led technology. This could sap growth and technological development by bifurcating the global technology sector and increasing the competition for talent as China accelerates its drive for technological self-reliance.

Transatlantic Trade and Investment Partnership: Moving forward

The Obama administration began negotiations with the European Union on what would have been the Transatlantic Trade and Investment Partnership. These negotiations were abandoned following the withdrawal of the United States from the Paris Agreement on climate change targets, but a Biden victory would see the United States immediately re-join the Paris Agreement. This would, in theory, open the door for TTIP to be revitalised.

However, negotiations would have to address the new economic landscape that has developed since the talks ended, including the United Kingdom's departure from the European Union and the tighter focus in the United States on building resilience in its supply chains, particularly those for technology and healthcare products. At the same time, trade has become a more contentious and divisive matter in domestic US politics.

Most likely, a Biden administration would restart trade talks with the EU as soon as it is fully staffed, using the 2013-2016 negotiations as a starting point. However, this TTIP 2.0 would probably be scaled down from the original vision, a quid pro quo for a deal that could be completed quickly in case Democrats lose control of Congress in the 2022 or 2024 elections and ratification proves more difficult. The outcome should help European firms gain greater access to the United States. This would be particularly important if geopolitical tensions have closed off elements of the Chinese market. The Biden administration could also find more common ground with the EU over the taxation of digital products and services and data privacy regulations, two areas in which the Trump administration and Europe have been at loggerheads.

US-UK trade deal: Ireland is the key

Biden recently said that any trade deal with the United Kingdom would be dependent on a post-Brexit deal that does not imperil the Good Friday Agreement (GFA).

Biden was on the Senate Foreign Relations Committee when the GFA was struck. While he was not vocal about Brexit as Vice President in 2016, the Obama administration was opposed to the UK's withdrawal from the EU. With a strong Irish-American caucus in Congress and the Democratic Party, the general mood in Washington is consistent: the GFA has a higher priority than a trade deal with the United Kingdom. Any trade deal, therefore, is dependent on the results of the UK relationship with the EU.

The trade deal with the EU would also take precedence over one with the UK, whose economy is considerably smaller, although the relative ease of negotiating with the UK as a single entity rather than the multinational EU might be considered a reason to address it first. It is therefore possible that the UK would “jump the queue” if the GFA were not threatened and a US-UK deal was sufficiently politically straightforward to be capable of quick completion. Nonetheless, it would raise difficult questions, not least in environmental areas. It is entirely possible that even a quick trade negotiation could still take four or five years.

Economy

Economy: Recovering from Covid-19 and grand plans

Recovery from the Covid-19 recession will occupy economic policy making in the first couple of years of a Biden administration, especially if there are resurgences of the virus or universal vaccination takes longer than expected. Full control of Congress would allow Biden to embark on his long-term infrastructure and clean energy investment plans.

Tax policy: Funding grand plans

A Biden administration will need to raise more than \$3 trillion over the next decade to fund his spending plans. He has said he will raise the corporate income tax rate to 28% from the 21% to which President Trump cut it and establish a minimum tax on book income for corporations with book profits of at least \$100 million. He is also proposing a 10% surtax on corporations that offshore jobs and a 10% tax credit for reshoring production. He will raise taxes on individuals with income above \$400,000 a year through a combination of income, capital gains and payroll taxes. The top rate of individual income tax would be restored to 39.6% from 37%.

Biden's proposals affect a large number of taxes and credits, and there is some haze around the details of specific proposals. While he would be able to enact his tax plan in broad outline, individual tax policies will be subject to the customary horse-trading within Congress and between Congress and the White House.

Republicans close to the oil and gas industry will seek to block or water down tax support for a transition to clean energy, such as an end to tax subsidies for fossil fuels and expanded renewable-energy-related tax credits. The trade-off may be tax credits for carbon capture, use and storage, and credits for residential energy efficiency that would be energy-source neutral.

Carbon pricing, such as carbon tax and dividend proposals, are gaining political popularity, but face bipartisan and intra-party arguments over how the revenues might be used for ‘dividends’ or tax rebates for households versus subsidies for renewable energy. Legal immunity for the fossil-fuel companies against climate-related lawsuits may prove to be a bargaining chip.

Regulation: Undoing Trump's undoing of Obama

A Biden administration would seek to roll back Trump-era deregulation, especially concerning the environment and financial services. Much of this could be done through

agency rule making. However, while Biden could appoint new agency heads, he would need to wait for commissioners' terms to complete, leaving a Republican-appointed majority in place for a while at agencies such as the Securities and Exchange Commission.

Technology

Investment in new tech: Big boost

Biden is promising \$300 billion in investment to cover research and development as well as the development of breakthrough technologies. His plan lists electric vehicles, lightweight materials, AI and belatedly 5G as areas that would receive some of these funds. He would also encourage public-private partnerships and links between the government and research institutions.

Much of this would pass relatively easily as part of a Covid-19 recovery package. Investment in science is popular among Democrats and would be stimulus dollars that could have a potentially high multiplier. Nevertheless, while the costs would be immediate, the benefits would be both uncertain and long term.

Perhaps the greatest benefit to tech firms would be Biden's expansion of immigration. Trump signed an executive order in June to restrict H-1B visas for 2020. These visas are used by major tech firms to bring in engineers, programmers, and other workers that drive the industry. Trump's tighter immigration policies have contributed to a boom for the Canadian tech sector: Toronto experienced the continent's highest tech job growth from 2015 to 2020.

A Biden administration that eases the regulatory process for immigration and strikes a more welcoming tone could reverse this trend. Such a development will require Congress to pass an immigration bill. While this would not be a priority in Biden's early days, it is very likely in the first two years of his term. A similar bill passed the Senate with bipartisan support in 2013 and failed only because Republican Speaker of the House John Boehner refused to hold a vote since his party was divided on it. It was overwhelmingly supported by Democrats.

This could supercharge the race for the next generation of the Internet of Things and clean energy. Gains would not be contained within the United States, as the new developments would be exported to other countries. It may, in fact, spur greater investment in Europe to keep up with the new US technologies.

Big Tech and anti-trust

Unlike the Progressive wing of the Democratic Party, which calls for a 'trust-busting' approach targeting 'big tech' companies including Amazon and Facebook, and was largely behind the recent House report that explicitly called for this, Biden has said that forcible corporate break-ups on the grounds of their growing market power would be premature.

How far progressive Democrats could push this agenda in a Biden administration would depend on the relative post-election strengths of the party's two wings. However, anti-trust cases are lengthy and breaking up Big Tech may require new legislation, while pursuing either course would absorb a lot of administration resources and political capital that it would probably prefer to deploy elsewhere.

Biden's running mate Senator Kamala Harris is close to Big Tech and her record as California's attorney general does not suggest she would push for break-ups. When in state office, she took no action to constrain industry consolidation, even as firms such as Facebook and Google were growing through acquisitions.

More likely and more easily achievable would be tech regulation, such as passing a federal privacy law with similar personal data protections to those under California state law and a crackdown on misinformation posted to social media platforms. Like Trump, Biden wants to limit the legal protections for social media platforms. He has said that Section 230, which treats the platforms as a common carrier rather than a publisher with regards to content posted to their platforms and imposes light requirements for policing it, should be revoked for Facebook and other platforms. Both approaches would be in line with Biden's preference for targeted regulation.

Health

Expanding insurance coverage for all

Democrats will put a heavy focus on appearing to be managing Covid-19, drawing a clear contrast with the prior administration. They will attempt to update the Affordable Care Act ('Obamacare') with a public option, which would likely be a buy-in to Medicare (the federal health insurance system for seniors), and further expand Medicaid (the federal insurance system covering the poor and children). This would mean universal lower reimbursements for pharmaceutical and medical device companies, putting a strain on their profits.

It is possible that the Medicare qualifying age would be lowered to 55. This would not be bad for insurance companies as removing costly employees from private insurance would reduce expenses. Democrats could also pursue expanded public insurance for children, potentially merging multiple federal insurance schemes into Medicare.

Climate change

Green New Deal: Linking climate policy and jobs

The Green New Deal, sponsored by Representative Alexandria Ocasio-Cortez and Senator Edward Markey, is less of a policy and more of a political strategy and vision.

It was introduced in Congress as a nonbinding resolution, meaning that, had it been voted on, no action would have been required. However, its introduction has served as an organising message for climate activists and elected officials as a way to think about climate change. It calls on the federal government to reach net-zero emissions by 2050, with a variety of technical investments and policies to help the country reach that goal in a way that supports economic and social development.

Biden has not committed to passing the Green New Deal, in part because the term has fallen victim to the wider polarisation of American politics and society. It has become a source of derision among conservative media outlets, in part because the lack of specifics has simplified its opponents' task of drawing broad conclusions about the harm that it would allegedly cause.

However, Biden has proposed a 10-year, \$2 trillion climate plan that shares many of the elements of the GND and that was negotiated with the progressive wing of the party. His plan would increase the use of clean energy and use the transition to a green economy to spur job growth. This plan would require a level of support in Congress that Biden would probably have in this scenario. Senator Joe Manchin of West Virginia, the second-largest coal-producing state, is the least environmentally friendly member of the Democratic caucus, but his state is also one of those in greatest need of economic development. A compromise with Manchin for his vote in exchange for considerable support for West Virginia is probable.

Passing a major climate framework would not only reduce global emissions but would also create a greater market within the United States for green tech from other countries.

Fossil fuel regulations: Return of tighter emission standards

Regulation of fossil fuel industries can be initiated and executed within the Executive Branch under existing law; to that extent, control of the Senate would be less important than controlling the White House. Biden could reverse President Trump's Affordable Clean Energy rule which weakened the Obama-era Clean Power Plan in an attempt to revitalise the coal industry. Biden could also tighten emissions standards for automobiles, develop methane emissions guidelines, revise rules on the export of natural gas, and include greenhouse gas performance standards for highway planning, among others.

Foreign relations

America returns as a global player

During the 1990s, Biden supported intervention in the Balkans and was seen as a central pillar of the liberal interventionist wing of the Democratic Party. But during the course of his career he has become more sceptical of unilateral US military interventions. He argued against greater involvement in Afghanistan during the Obama administration and opposed intervention in Libya. He has maintained his support for international institutions and proposes to host a "Summit for Democracy", a meeting of the world's democracies, during the first year of a Biden presidency to encourage collaboration on fighting corruption and promoting human rights.

This proposed summit is indicative of a shift within Democrat thinking that a Biden administration will seek to put into practice. This view sees the primary threats to the country as coming not from terrorism, as was the case for the decade after 9/11, or even from military rivalry with China or Russia. Instead, it sees the main global threat to the United States as coming from a general rise in populism and authoritarianism. It will take a strengthening of multilateral institutions to resist these anti-democratic forces. This may pose a risk to the US relationship with the European Union if Hungary and Poland become targets of a US push against populist regimes when the EU has yet to sanction them. It may also threaten US relationships with Israel and India, whose democratic practices are both being called into question.

Biden could also move to break the American focus on the Middle East by downgrading the priority of US alliances with Saudi Arabia and states in the Gulf and instead turning US attention to Asia. This is partly driven by some Democrats' view that the United States will have less need to depend on regional autocrats to ensure its supply of oil as the world transitions away from fossil fuels (and US energy independence has already weakened that need). Democrats also favour containing Iran through mechanisms such as the Obama administration's nuclear deal, rather than by building up Saudi Arabia militarily. The wildcard in a Biden administration will be jihadism. If there is a post-pandemic resurgence of religious fundamentalist terrorism against the United States, relations with the region will have to be recalibrated.

US-NATO relations: renewing the focus on Russia

Biden has called NATO the "single most important military alliance in the history of the world." Even accounting for the hyperbole of politicians, the proposition is indicative of Biden's world view. This was shaped during the Cold War and sees the country's transatlantic ties as the most important of its relationships. Russia will occupy a large part of a Biden administration's foreign policy because it is one of the main perpetrators of the major threats cited in his election platform: rising authoritarianism and cyberattacks. It is also the counterparty in the New START nuclear arms control treaty, which expires in 2021 and which a Biden White House will seek to maintain.

US-China relations: Consensus competition

Biden has made criticism of China a centrepiece of his foreign policy approach. He has done so partly to rebut Trump's portrayal of him as "soft" on China, but his position is also driven by the emerging bipartisan consensus in Washington that China is the primary global competitor to the United States. Biden has criticised China on economic grounds, arguing that the country violates trade practices and steals intellectual property, and also on human rights and political grounds, saying that China's infringement on Hong Kong's autonomy needs to be met with stronger US and international pushback. A Biden presidency would actively work with the EU and Asian allies to develop a coordinated policy approach towards China.

On a broader level, Biden has criticised China for seeking to reshape global norms. Biden administration officials would regard countering China's global power as fundamental to their pro-democracy agenda. To what extent Biden would oppose China with actions is another question, however. It is unlikely that he would make economic decoupling an explicit policy goal. Instead, he would seek to create global norms on cyberattacks and policies around intellectual property. Biden also prides himself on his ability to build relationships, and already knows President Xi Jinping. But priorities could change if there were events in China such as more evidence of human rights abuses in Xinjiang that forced a Biden administration to act in response to public and Congressional pressure.

As well joining a TTP-2, in part to make it a counterweight to the Regional Comprehensive Economic Partnership (RCEP), a China-led regional economic group, Biden might start to nudge the region towards forming a regional security group building on the Quadrilateral Security Dialogue. The Quad group of India, Japan, Australia and the United States are all countries where sentiment has turned markedly against China. It could form the first step in a long-term progression towards an 'Asian NATO', and a counterweight to the regional security position that China might eventually exert out of its Belt and Road Initiative.

Market implications

Surveys of fund managers suggest an overwhelming belief that a Trump victory would be good news for the stock market and a [Biden victory would be bad](#) - largely because of the tax and regulatory positions of the two candidates.

An initial knee-jerk sell-off in equities and the dollar is indeed possible on the prospect of Biden's proposed higher corporation and payroll taxes, which would hurt profitability. Financial, energy, healthcare and real-estate stocks would be particularly exposed given the likelihood that these sectors will be most in the spotlight in a new more proactive, regulatory environment. The dollar could come under pressure on the perception that it is a more detrimental economic environment for doing business, resulting in reduced portfolio inflows into US markets.

However, such a reaction may be short-lived. If Biden and the Democrats were to win handsomely, this would give the platform a massively reflationary fiscal stimulus - based on the \$3.4 trillion stimulus proposed by House Democrats over the summer - that could deliver meaningful job and growth improvements and by extension, higher corporate profits.

Most of the spending is seemingly front-loaded and will support incomes through unemployment benefit extensions with help for state and local government. The proposed massive green energy investment projects would then help maintain economic momentum. This scenario would also likely lead to a more predictable trade policy with improved relationships with allies/trade partners relative to what corporate America has been faced with in recent years.

The re-appointment of Federal Reserve Chairman Jerome Powell would be supportive for financial market sentiment, and the nomination for Treasury Secretary will also have a bearing on the market perception of a Biden presidency. The favourite right now is current Federal Reserve board member Lael Brainard. She is seen as a centrist who would ease market concerns of a more radical, progressive agenda with regards to economic policy. However, should someone on the left of the party, such as Elizabeth Warren, take the position, the market would view the potential implications negatively.

Tax hikes will, of course, be implemented and specific industries will come under regulatory focus, but given the hugely disruptive nature of the pandemic they would likely be eased in, rather than rapidly and aggressively enacted. If that is the case, the economic environment could be very positive for equity markets. If it buoys sentiment globally, we could see the dollar continue to drift lower, from what are still comparatively high levels looking over the past 15 years. This would make the US, at the margin, more economically competitive on the international stage.

In the bond market we could initially see yields fall and a bull-flattening of the USD yield curve in the midst of a sell off in risk assets. This might then be followed by re-steepening of the yield curve, with a higher endpoint for yields compared with other scenarios on the back of initially higher borrowing to fund the stimulus and an implied higher growth and inflation environment.

That said, the significant investment programmes, employment strength and higher taxes for corporates and the wealthy over the medium to longer term could result in structurally healthier performance of the US fiscal position in subsequent years. Should better-balanced growth emerge, and the budgetary position improve as it did under Bill Clinton in the late 90s, Biden could ultimately prove to be a dollar positive.

Scenario 2. Two years of gridlock

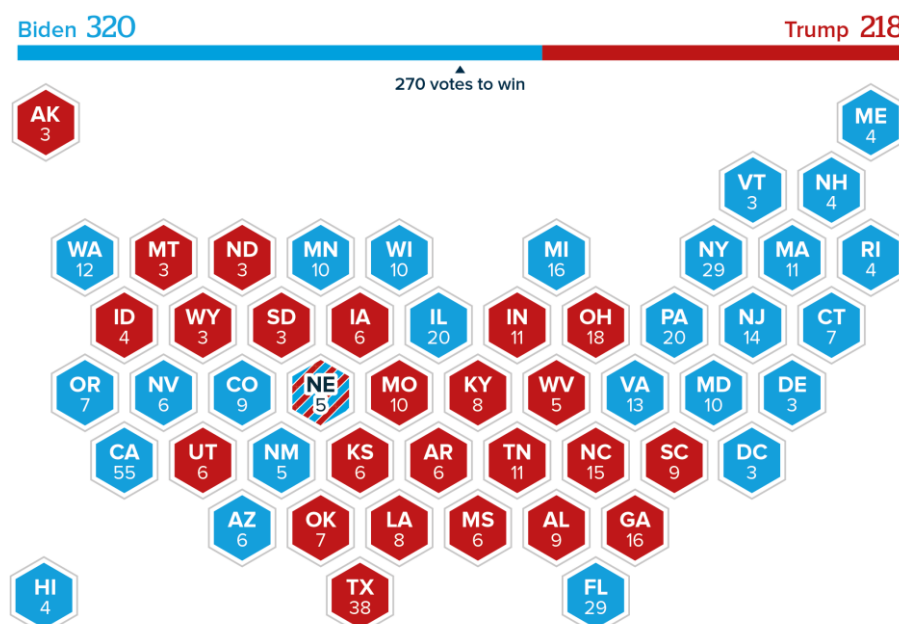
In our second scenario, Biden wins the presidency, but the Republicans hold onto the Senate. Resolving the election was difficult, with court cases dragging on for weeks and two runoff elections in Georgia in January ultimately deciding the fate of the Senate. As Biden is sworn in, he faces a Senate that is still controlled by Majority Leader Mitch McConnell, who has already pledged to block all major legislation and prevent any confirmation of judicial nominees. Biden might even face an uphill battle to get his Cabinet confirmed.

This scenario sees US politics becoming even more polarised than it had been in the previous decade, a circumstance made more likely by Donald Trump, although out of office, continuing to exercise substantial influence not only over Republican Party politics but over wider national public exchanges.

How this happened

In the lead-up to the election, the Presidential race continued with Biden holding a solid lead. However, the parties drew close in certain swing states, and Trump's consumption of media attention made it difficult for Senators to separate themselves from him. This did little to help Trump's position in national polls, but it did solidify Republican candidates for Senate in many states that voted for Trump. By ensuring that the election was a referendum on Trump, he prevented any Democrat from gaining sufficient numbers of split ticket voters to win back the Senate.

Scenario 2: Presidential results

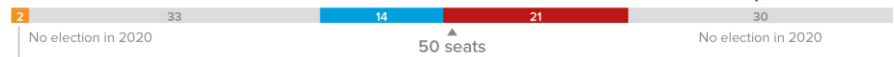


Source: 270TOWIN

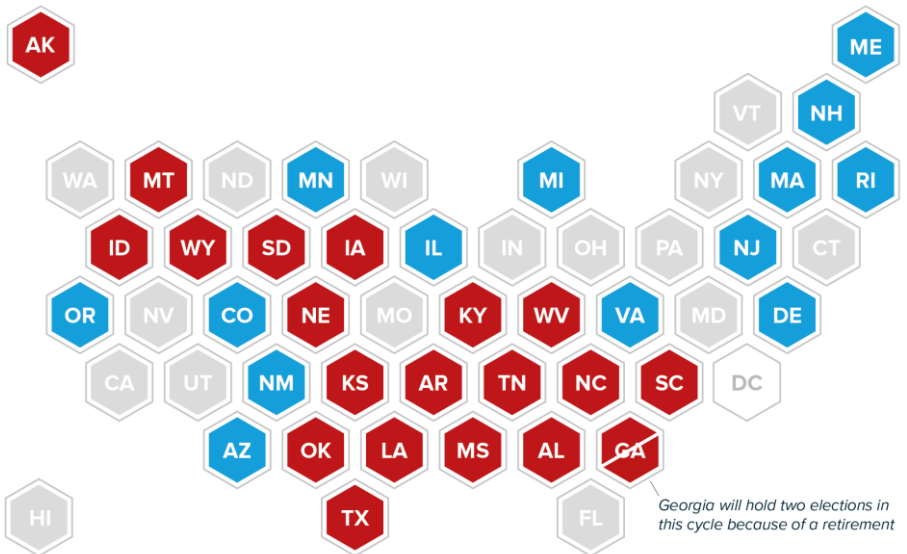
Scenario 2: Senate results

Democrats **49**

Republicans **51**



Independents caucusing with the Democrats



Source: 270TOWIN

Policy impacts

International trade and investment

US-China trade: Pressure continues

The US Constitution grants Congress complete formal authority over trade policy and tariffs. Congress has, however, delegated practical control to the President through successive pieces of legislation since the early twentieth century. Even as aspects of Trump's trade policy were opposed by many in Congress, partisan ties prevented Republicans in Congress from opposing the White House line.

With party control of the White House and Senate divided, there is the chance that trade policy could become a significant source of conflict. But trade is an area where Biden is closer to corporate Republicans than Trump was. In particular, he will resist tariffs that hurt business, traditionally a Republican constituency. Any unilateral withdrawal of existing tariffs on China would be met by criticism from Republicans looking to identify themselves with Trump's record, not least because of the former President's continuing popularity among Republican voters. However, any legislation emerging from the Senate around trade would not pass the Democratic-held House or overcome a Presidential veto.

Republican Senators would probably attack Biden as "soft" on China if he does reach an accommodation with Beijing; the likely result would be to make trade policy harder towards China than set out in Scenario 1. Intellectual property theft could be the subject of new bipartisan legislation.

Transatlantic Trade and Investment Partnership: Senate pushes back

Because trade negotiations happen solely within the Executive Branch, control of the Senate need not disrupt proceedings. As President, Biden also has the ability to re-join the Paris Agreement regardless of which party controls the Senate.

However, the President must secure Trade Promotion Authority (TPA) from Congress to conduct trade negotiations with other countries. Although TPA lapsed from 2007 to 2015, the Obama administration continued to negotiate agreements. It sought and received a new passage of TPA to conclude the TPP. This current authority lapses 1 July, 2021.

A Republican Senate could pose problems for Biden if it refuses to extend TPA. There would be no immediate problems, since any agreement begun under such authority would be covered, and so a new TTIP started by 30 June could possibly qualify, but the outcome is likely to be politically fraught. Because Republican members of Congress have in the last three decades usually supported free trade more than Democrats have done, this could make a delay to TTIP less likely. It would, however, be an additional political risk that the EU may consider when negotiating.

This would also delay the development of other trade deals. Although none are currently mooted, future deals with emerging markets could be stalled by wrangling over TPA.

Economy

Economy: Bickering over recovery

Economic recovery from the Covid-19 recession will be complicated by a Biden White House having to deal with a split Congress. Biden will prioritise his long-term infrastructure investment plan over his clean energy plans as the more immediate jobs-creator and because it will meet less Republican opposition in the Senate.

Tax policy: Bickering over higher taxes

A Biden administration would find great difficulty in enacting its ambitious tax plans in the face of Republican obstructionism in the Senate, particularly with the introduction of any redistributive tax proposals or higher taxes on business.

Like Trump, Biden wants to use the corporate tax code to reward US multinationals' investment in US-based manufacturing and penalise those that offshore jobs. The main elements of this are a 10% surcharge on the profits of goods and services US companies make abroad and import into the United States, raising the corporate tax rate to 30.6%, and a 10% tax credit for creating manufacturing jobs in the United States. A third element is the elimination of provisions in Trump's 2017 tax package which allow US multinationals to shield foreign profits from full US taxation. If implemented, the new rules promise a rich pay day for accountants.

Regulation: Undoing Trump's deregulation, but slowly

Biden will roll back Trump-era deregulation affecting energy, the environment, and financial services in areas where he can do so by executive order and via agency rule making. However, progress will be uneven until there is a turn-over of Republican-appointed majorities of commissioners at key agencies with the expiry of their term. Biden may also be cautious about striking an anti-business tone while the recovery is still underway.

In the short term, Biden's promise to end Trump's expansion of new leases for oil and gas drilling on federal lands would have limited effect on US production levels as existing wells are producing far below capacity because of global economic conditions. Indeed, global market conditions will have a greater effect on US oil and gas production than policy, although a Biden-led return to the Iran nuclear deal could depress oil prices if a flood of Iranian crude reaches global markets.

In the longer term, a successful implementation of Biden's clean-energy investment plan would be supportive of a global transition away from fossil-fuel energy.

Technology

Investment in new tech: Bipartisan cooperation possible

Many of Biden's plans to invest in technology might make progress even with a Republican Senate. An economic stimulus package with billions for R&D could win Republican votes, especially if it contained provisions that distributed investments geographically in politically advantageous ways. Even with Senate majority leader Mitch McConnell attempting to obstruct a Democratic President, blocking an economic recovery bill would take political finesse given that 22 of the 34 Senate seats up for election in 2022 are currently held by Republicans.

Anti-trust cases against Big Tech would need to be prosecuted under existing legislation. There would not be bipartisan support in Congress for new legislation.

There could be common ground, however, on Section 230 changes to make social media platforms more liable for the content their users post and to police undesirable speech more rigorously. Equally, this could be achieved through agency rulemaking.

An overhaul of the immigration system would be impossible with a divided government, but Biden could reverse many of Trump's policies by executive order, especially those that limit specialist and professional work visas and visas for graduate and post-doctoral students in STEM subjects. These students are an important source of talent for US technology companies, who cannot find sufficient US graduates to fulfil their needs, and for research programmes within US universities.

The US tertiary education system is a powerful attractor of the best scientific and technological minds from around the world. US multinationals fear that their access to this talent will be lost if present restrictions on such students continue, with long-term implications for US innovation. There are already indications that attitudes among Chinese students towards studying in the United States are changing as a result of what is perceived as a hostile climate towards them there.

Healthcare

Battling over Obamacare

If Obamacare is struck down in the courts and Congress is divided, expect a new healthcare bill to be a major focus of the 2022 midterm elections. If Obamacare is not struck down, there will be little movement on any healthcare legislation. With control of the White House, Democrats would be likely to raise reimbursements for safety-net hospitals, especially those in urban areas. In addition to the direct health care spending, this would support municipal fiscal budgets which have been heavily strained by the pandemic-induced shutdown and the rise in unemployment, which has removed employer-provided health insurance cover from more than 12 million people.

Even with a divided Congress, a Biden administration could advance measures to ensure the US-based manufacture of critical medicines and personal protective equipment (PPE) for healthcare workers. One consequence of the Covid-19 pandemic has been to expose the reliance of the United States on Chinese supply chains in the healthcare sector.

Climate change

Green New Deal: Progress under a different name

Biden would be able to include some investments in green infrastructure as part of the appropriations bills that are negotiated to fund the government. He would also be able to pass a variety of executive orders to prioritise federal research in climate and energy technology and to reinstate many of the Obama administration's climate policies.

Any taxation to fund the Biden climate plan would be contentious, however, especially where it disadvantaged the country's fossil-fuel industries. Yet there might be room for compromise over carbon pricing and even support for hybrid electric transport.

A Republican-held Senate might pivot on the climate issue. With younger voters of all parties caring more about climate change, there could be some reluctance to continue to stonewall on these issues. If this becomes the case, then the US's position as one of the only countries with a major party that does not accept climate science could end, and greater cooperation on global climate issues could emerge.

However, this might take a further political cycle and a change in the Republican's funding base, as the oil and gas industries continue to be major contributors to Republican and conservative groups. Also, tens of thousands of energy jobs are in Republican-controlled states.

Nonetheless, the global transition away from oil is already underway. Biden-imposed restrictions on drilling to reduce pollution and protect public health will raise US drillers' costs, but the impact will be nothing compared to the global economic pressures the industry is facing from the mismatch of demand and supply caused by the pandemic, rising climate activism in the advanced economies and the long-term trend towards the use of renewable energy resources.

Buoyed by the swing in US public opinion away from support for Saudi Arabia over human rights issues, Biden could rejoin the Iran nuclear deal. However, this may raise the risk of destabilisation in a region where the rivalry between Riyadh and Tehran is fierce. That, in turn, would make near impossible any co-operation between OPEC and non-OPEC countries on keeping oil production down to push up crude prices. If anything,

it could spur production increases to chase revenue, just as non-OPEC producers, like Russia, have done.

Market implications

As with the previous scenario, the initial reaction from equities and the dollar are likely to be negative on the fear of higher taxes and more regulation. That said, if there is a sense that it will be watered down due to the lack of support in Congress, market moves may be more muted.

There is also less prospect of a major (and swift) fiscal stimulus, with Democrats having to work with Republicans on a quid pro basis. This will dilute some of Biden's plans, but an effective legislative agenda is still possible, working with Republican moderates. This would fit with the narrative that the focus would be on infrastructure investment first, rather than full steam ahead with the green energy project. As in the previous scenario a return to multilateralism and preparedness to work more cordially with allies and trade partners could provide more certainty for multinational businesses.

Overall, the backdrop should be modestly supportive for growth given a still sizeable fiscal stimulus and a more certain trade environment while President Biden will be constrained from implementing radical regulatory and tax changes. This should not impede the equity market meaningfully and could facilitate a period of benign dollar decline.

Given that the fiscal deficit won't widen as rapidly in the near-term as under the first scenario and the threat of gridlock on so many issues, the growth story may not be as vigorous and yield curve steepening will be more muted. However, on balance, we are less likely to see the improvement in the fiscal position we are anticipating over the longer term in the Democrat clean sweep scenario.

Scenario 3. Trump recovery

Our third scenario finds the United States confronted with a sight that would have astounded anyone a decade earlier -- former businessman and reality TV star Donald Trump being sworn in for his second term. The result was not decided until weeks after Election Day when the Supreme Court ruled on disputed ballots, but it was enough to produce a second Trump administration. Although still facing a Democrat-controlled House under Speaker Nancy Pelosi, President Trump has a further four years to shape the executive and judicial branches of government.

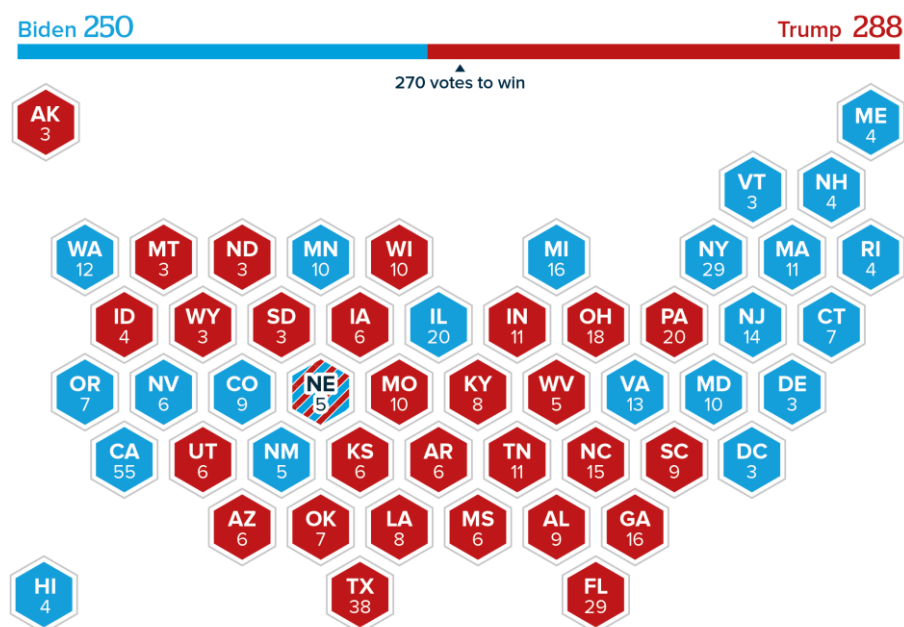
How this happened

Although Trump had constantly trailed in the polls, his victory drove home the lesson that the President is elected not by the country overall but by the Electoral College, in which it is possible to win a majority of the 538 votes without winning the popular vote. Trump's contraction of Covid-19 generated just enough of a wave of sympathy to boost Trump's favourability ratings and make him competitive in swing states. This time, once again, the conflictual politics of urban, suburban, and rural communities in these old industrial states shaped the national result and gave him the election.

While the polls about a national Biden lead were reasonably accurate, confusion among potential Democratic supporters about who was entitled to vote, and high mail-in rates from Republican voters, cost Biden votes in crucial states. The ballots were disputed, and court battles ensued, but the Supreme Court eventually ruled in Trump's favour.

Trump's electoral turnaround assisted Republican candidates for the Senate in some seats that they seemed likely to lose back in September. This was sufficient for the party to retain 50 Senate seats and allowed the Vice President's tie-breaking vote to ensure Republican control of the chamber. The House of Representatives, however, continued to be controlled by the Democratic Party with an increased majority.

Scenario 3: Presidential results

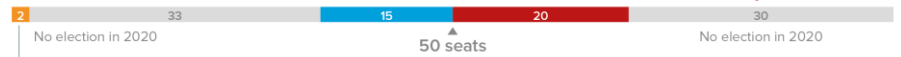


Source: 270TOWIN

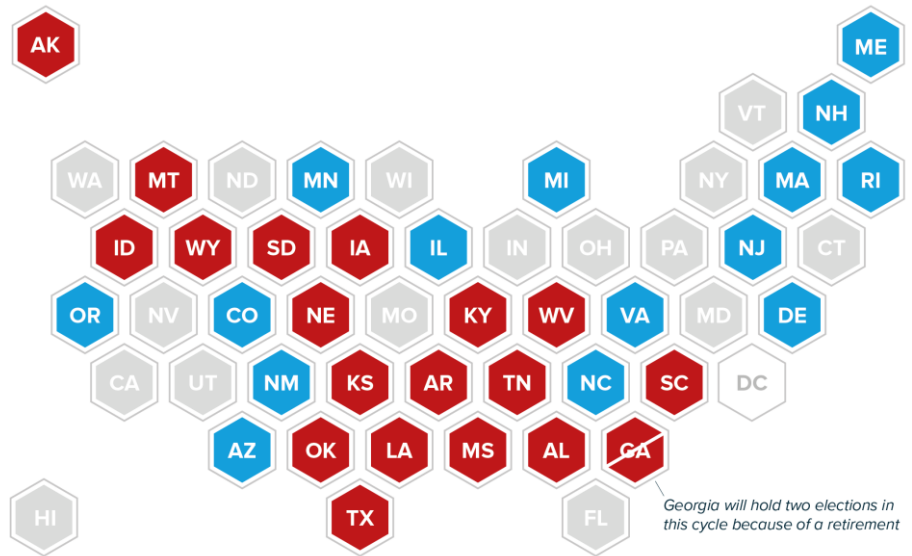
Scenario 3: Senate results

Democrats 50

Republicans 50



Independents caucusing with the Democrats



Source: 270TOWIN

Policy impacts

International trade and investment

Trade war with China: Sine waves

Trump sees the trade war with China as one of the central accomplishments of his presidency and his ire at China only increased as he blamed Beijing for the coronavirus pandemic. His re-election means that the trade war is likely to intensify.

However, the process of intensification will not be linear. Trump was extremely pleased with his Phase One trade deal, signed at the start of 2020. It rolled back some tariffs in exchange for Chinese promises to buy more goods and services from the United States, implement stronger protections for intellectual property in the technology sector, and not to devalue the renminbi. It was touted as a major success for an administration whose objectives had been clear and whose methods were effective.

In July, Trump announced that the Phase Two trade deal was on hold. Negotiations on a subsequent agreement were supposed to start quickly after Phase One was signed, but once implementation of Phase One became enmeshed in disputes about detail, Phase Two negotiations did not begin. Trump blamed Covid-19 as one of the reasons for the delay.

A second Trump term would likely follow the pattern established during the first: the White House escalates the trade war with China, seeks to reach a new agreement, then escalates, then seeks another accommodation using a tariff-led approach that can rise and fall as tensions ebb and flow.

The global business community foresees a general decoupling of the US and Chinese economies, with companies facing a difficult choice of which market in which to operate. US regulation about technology transfer make tech firms hesitant to sell to both, and there is a period of economic dislocation as supply chains are reconfigured.

Despite a Trump administration promise to 'bring back' one million manufacturing jobs from China and provide disincentives for US firms to produce there, US multinationals will not readily abandon their investment in the growing Chinese domestic market. However, trade policy will be further cast in national security rather than economic terms, with denying China access to US technology seen as central to US interests.

Transatlantic Trade and Investment Partnership: No-Go TTIP

Trump will not rejoin the Paris Agreement, and so there is almost no chance of the EU agreeing to a new TTIP. The largest US-EU trade agreement would be restricted to tariffs on industrial products.

However, it would be more likely that Trump would start a trade war with the EU than reach a trade agreement. Europe, and Germany in particular, has attracted Trump's displeasure almost as much as China. He has been restrained in his trade actions towards the EU in his first term by advisors and members of Congress. In a second term, these restraints would weaken in the face of the President's renewed mandate. The most likely target would be automobile manufacturers, who were threatened by Trump with a 25% tariff in January 2020. High-profile European luxury goods would also likely be targeted.

US-UK trade deal: Trump enthusiasm

Trump may favour a trade deal with the UK. He is pro-Brexit and has not expressed any opinion about the GFA.

However, the pro-GFA position in Congress is shared across the aisle. The Friends of Ireland group, an informal caucus supportive of peace in Northern Ireland, contains more than 10% of Congress. It is chaired by Richard Neal, who also chairs the House Ways and Means Committee, which has jurisdiction over trade agreements. Neal has already said that he will not advance any trade deal through his committee if it jeopardises the GFA.

In this case, control of the House will be critical in passing any such deal. An agreement would only pass if, by the time it comes for a vote in 2024 or beyond, the GFA has been addressed or the chairmanship of the Ways and Means Committee has changed. Trump may begin negotiations, but they would proceed with the knowledge that any resulting deal faces congressional rejection.

There are further potential complications. First, access to the UK healthcare market has been a demand of US negotiators and the Covid-19 pandemic has made UK public opinion more protective of the National Health Service. Second, faith within the governing Conservative party that US 'Big Ag' would be the post-Brexit replacement for Eastern European farm labour has weakened and public opinion remains cautious of US animal welfare standards and industrial scale farming. Finally, the United Kingdom has to hold a general election no later than eight months before the end of Trump's second term, making the political timetable awkward.

Economy

Economy: Restoring the jobs COVID and China took away

Economic policy making will be driven by the twin themes of response to the continuing impact of Covid-19 and trade and technology decoupling from China. A large-scale infrastructure plan is likely, favouring fossil-fuel technologies and 'Made in America' manufacturing, to fulfil a pledge to create 10 million new jobs. This will be able to gain Democratic support in the House. Trade policy will continue to swing mercantilist. Support for small business creation will be prominent as will R&D spending and procurement to support the civilian and military space industries. A second-term tax cut package will be presented as key to economic recovery. Although contentious with Democrats, Trump will again force through a significant political victory for himself.

Tax policy: Cuts and more cuts

Although there are few details of Trump's proposed second-term tax cuts, he is on record as supporting further cuts in capital gains taxes, possibly to 15%, and taxes on the middle class, the latter likely as part of a further reduction in individual income tax rates. Like his challenger, he has suggested tax credits for US companies 'bringing home' jobs and engaging in other desired activities, although it is not known how this would work in practice. Trump will also look to extend or make permanent those provisions of his 2017 tax-cut package that will expire during or just after his second term.

Trump has raised some \$80 billion via tariffs. These have been a central pillar of his China trade policy, which is likely to continue although they represent a hidden tax on US companies and consumers. The administration's outstanding threats to impose additional tariffs, if enacted during his second term, would double down on that. Researchers at the Wharton Business School estimate that the US economy could see a permanent loss of 0.6% of GDP by the end of the decade, depending on the size and duration of the tariffs.

Regulation: Making red tape an endangered species

Although he has achieved many of the easy cuts in red tape during his first term, Trump will push harder on aggressive deregulation in his second four years. He will focus particularly on the energy and healthcare sectors in the name of energy independence and ending US dependence on China for critical medicines and healthcare supplies. With

the election out of the way, and with it the controversy over mail-in voting, Trump may attempt to revive the White House's shelved but never abandoned ambition to prepare the US Postal Service for privatisation.

Technology

Investment in new tech: Arsenal of AI

While Trump has not opposed investment in emerging technologies, he has not made it a high priority for the public sector. This makes it difficult for the government to be leading the development of new technical areas.

One area where there might be concerted investment is in 5G. The Trump administration has blocked Huawei from using US technology and is pressuring allies to keep Huawei out of their 5G networks. While the United States has considerable leverage that it can bring to bear, it cannot indefinitely prevent countries from adopting 5G technology. An alternative must be available if the US position can hold.

The White House has already started working to create common standards to encourage US companies to develop 5G technology. Nokia and Ericsson also have been tacitly approved by the White House as possible contenders, since they are already embedded in US networks and are headquartered in friendly countries. A major government-backed drive for 5G capacity, including a virtual 5G network under Open-RAN standards, is likely in a Trump second term (as it would be in a Biden Administration).

Health

Just do not call it Obamacare

Expect further gridlock with potential for a deal on prescription drug pricing - a Trump priority. The President's lack of interest in policy minutiae will allow Democrats to craft much of the detail of the legislation.

Broader reforms would certainly be possible. For all Trump's denigration of Obamacare, his stated healthcare agenda includes key elements, such as coverage of pre-existing conditions, an end to surprise billing and lower premiums. Liberal dream items such as the expansion of Medicare to certain groups or the de-facto nationalisation of rural hospitals could end up being signed into law by Trump.

Climate change

Green New Deal: Economic nationalism

Trump would neither act on the Green New Deal nor adopt any of its elements. He has denied climate science, to the point of calling it a hoax.

There may be support for investment in green infrastructure nonetheless, if it is framed as a way of building US energy independence and new industries. One of Trump's main focuses has been to reverse the trend of a decline in US manufacturing jobs and reliance on supply chains in China. Since renewable energy is a growing industry, it could attract the support of the White House on economic nationalism grounds.

Fossil fuel regulations: Populist deregulation

Many of President Trump's deregulatory plans around fossil fuels have been put into effect, but not all. Those that remain would be pursued during a second Trump term, when he will also push for policies that support LNG exports. This could reshape the global energy landscape, especially if LNG exports were directed towards Europe in tandem with diplomatic pressure to reorient energy distribution systems. European reliance on Russian gas may be reduced, in turn reducing Moscow's leverage over the European Union.

Foreign relations

Global order: Bilateral deals downgrade alliances

Trump's foreign policy is quasi-isolationist and transactional. During his first term, he withdrew from the Paris Agreement, the Iran nuclear deal, the World Health Organization and threatened to withdraw from the World Trade Organization.

In a second term, Trump's inclination to remove the United States from international bodies will continue and may even accelerate, though this will be offset by continuing efforts to thwart the expansion of Chinese influence and appointments in multilateral institutions. US diplomacy would become based more on bilateral partnerships. Existing alliances, such as the US alliances with South Korea and Japan, may become frayed as Trump presses allies for higher payments in exchange for the basing of US troops.

A US withdrawal from the WTO is less likely than Washington simply disregarding the rulings of the organization's dispute resolution mechanism.

One area where a second Trump administration may become more involved is the Middle East. Trump is close with Saudi crown prince Mohamed bin Salman. Influenced by this relationship and by his relationship with Israeli Prime Minister Benjamin Netanyahu, he may pursue further aggressive actions against Iran. Longer-term Gulf frictions present risks for global energy security and shipping.

Trump's support for Saudi Arabia would be tested by a prolonged period of low energy prices as they could pose an existential threat to the US oil and gas industry and the 150,000 jobs it supports in Republican-voting states. The Saudi-initiated oil price war in March 2019 took a heavy toll on US shale producers, especially those that took on debt to finance new drilling when prices were higher, even before the pandemic crushed demand.

Price recovery will depend on how long it takes for demand to recover and the speed at which the glut of supply can be drawn down.

In the meantime, the Trump administration could buy additional crude for the US Strategic Petroleum Reserve both to put a floor under prices and to alleviate the sector's storage crisis. It might also provide bailout loans to struggling US energy firms, although given the donor connections between the industry and the Republican Party, Democrats in Congress would only agree through clenched teeth. Trump could also find reason to impose tariffs and sanctions on other energy producers. Russian gas exports to the EU, replaceable by the sale of US LNG, would be one target.

Relations with Moscow would be further complicated in the event of a global energy price war, as Trump would have to balance sanctioning Russia's energy exports to shield US energy producers with engaging Moscow in negotiations to co-operate with OPEC in maintaining production quotas.

US-NATO relations: Withdrawal on the table

Trump has attacked the utility of NATO and may try to withdraw the United States from NATO during his second term. Reports that he has speculated in private about doing this have been confirmed by his former Chief of Staff and a former National Security Adviser.

Trump would not be able to withdraw formally from the alliance without Congressional approval. However, he could effectively end Article V by saying that he would not interpret the provision on collective self-defence as requiring action. This would remove one of the central pillars of NATO and the one which is of greatest importance to Eastern European nations.

Trump could also cut funding to joint NATO programmes and direct the Pentagon to move troops out of Europe. He has already announced plans to remove 12,000 troops

from Germany, in a move that has been described as prompted by his disagreements with Chancellor Angela Merkel. Trump is also resolved to withdraw troops from Afghanistan, which has been an area of operations for NATO. Ending this conflict would reduce the prominence and role of NATO in US foreign policy, and result in the organisation becoming smaller and weaker.

US-China relations: Taiwan becomes new flashpoint

The accelerated deterioration in US relations with China in 2020 owes much to Trump's public blaming of China for the coronavirus pandemic, but even before that there was wide acceptance of the idea that China is now the country's main geostrategic rival. Persisting arguments over implementation of the Phase One trade deal and postponement of Phase Two have been supplemented by the President's blocking of Chinese investment in the US technology sector and, to the fullest extent possible, the barring of Chinese technologies from the US market.

This general policy direction will continue in a second term. Trump may end the trade wars or, more likely, oscillate between periods of hostility and cooperation expressed in his pursuit of higher or reduced tariffs. But a perspective that China is a competitor to be confronted will suffuse the relationship. More industrial sectors will fall into political territory and face regulatory scrutiny, while financial services firms will be vulnerable as investment and capital flows as well as trade get caught in the administration's anti-China stance.

Encouraged by success in corralling allies to exclude Huawei from their 5G networks and other critical infrastructure, a Trump administration may seek to expand this front of co-operation, particularly with the EU and Quad countries. However, disquiet and distrust towards the President will limit its chance of success.

Military conflict between the United States and China is unlikely, although accidental clashes remain a risk. However, closer US military support for Taiwan would push Beijing and Washington further apart, with damaging consequences for the two countries' complex economic relationship. Beijing will be somewhat tolerant of greater economic ties between Washington and Taipei, including even a free trade agreement, providing they do not approach Beijing's red lines over Taiwanese independence.

The appointment of the Treasury Secretary in the second term will be a bellwether for the tenor of the administration's future China policy. The current secretary, Steven Mnuchin, is a moderating influence on the China hawks, who will take a Trump re-election as endorsing a freer hand in the second term.

Market implications

Low taxes and less regulation would be music to investors' ears, the question is how deliverable is it? It is difficult to imagine the Democrats setting aside differences with President Trump and the Republican party and be willing to sit down and quietly wave through his policy proposals. Instead, it is likely to be an even more divisive and brutal period that could see much of Trump's domestic agenda stifled.

There is certainly room for a deal on fiscal stimulus. However, the Republican party's reticence to back a package of the magnitude proposed by the House Democrats in recent months means it is likely to be more modest than under both Biden scenarios we have outlined. Consequently, the growth outlook and corporate profits may not be as vigorous as hoped.

If his domestic policy thrust is limited, President Trump may well double down on his international trade policies that involve making "deals" with the threat of tariffs. We will likely see the trade, intellectual property, security and technology battles with China continue and potentially be expanded, with Europe increasingly in the line of fire.

Conflict over climate policy, notably carbon taxation, could also feature. The long-term aspiration is for production to be re-shored to the US, but this will take time and the immediate impact would be to put up costs for American businesses and consumers.

This would be unsettling for equities with the dollar rising on the back of geopolitical anxiety and the prospect of a weaker global growth outlook – activity currencies like the euro and CNY would underperform.

If President Trump seeks to replace Jerome Powell as Federal Reserve Chair with someone more compliant, more willing to bend to his demands on negative interest rates for example, this could undermine investor confidence. In combination with a return of the trade war and no real substantive tax cuts, interest rates are likely to remain pinned to the floor. This would likely mean a slow re-steepening of the US yield curve – the slowest of all three scenarios – as the recovery continues more gradually.

US politics in the next decade

After the stresses of a Presidential election campaign, it is tempting to assume that things will calm down once the process has been completed. But as our scenarios have shown, whoever emerges victorious from this year's election will face a hectic period of policy making before the next congressional elections in 2022 offer voters the opportunity to change the political landscape once again.

The impact of the 2020 election:

A new wave of activity

A Biden administration supported by a Democrat-controlled Congress will move quickly to change direction on a wide range of issues. In part this will be to capitalise on the momentum of an incoming administration, but a greater drive will be the knowledge that mid-term elections traditionally prove successful for the party that does not control the White House. Biden will need to move fast while he has the votes and political capital he needs in Congress.

A Biden administration confronted by a Republican-controlled Senate will work equally hard to change policy but by working through the use of executive powers, an area that both Obama and Trump have widened considerably. A second Trump term with a Republican Senate is likely to see another wave of disruption packed into the first two years.

For Republicans, a Trump defeat coupled with the loss of the Senate presents a choice -- continue with the Trump policy of consolidating rather than expanding its base of support or move away from some of his policy positions. In the period leading up to congressional elections in 2022, the party is likely to keep most of Trump's fundamental policies while possibly toning down the associated rhetoric in the hope of a strong showing in the mid-terms.

Any significant change in policy direction would only come after a disappointing showing in the 2022 midterms, which is possible if the economic effects of the pandemic persist. The party would then realise that it needs to approach 2024 carefully. It will feel that it has a good chance of winning if, as it expects, Biden steps down after one term at the age of 82.

This suggests that the battle between the Trump line and the more traditionally centrist strand of the Republican party will be fought during the party's Presidential primary process in 2023-24, during which the Trump standard is likely to be carried by a member of the family supported by a Trump-controlled media empire.

Beyond 2021-22, there are signs that several political divisions will become more pronounced during the coming decade. The resultant realignment will be significant not only for domestic politics but for how the United States sees its place in the world – and how it is regarded.

Dividing America

Looking further ahead into the coming decade, two trends that were already becoming apparent in 2016 will become more pronounced. One concerns location and the other is linked to educational attainment.

Urban vs rural

By 2016, there was a significant correlation between the population density of a county and its voting patterns: dense urban areas voted heavily Democratic, while sparse rural areas voted heavily Republican.

If urban versus rural becomes the defining dimension of electoral competition, Democrats will be at a disadvantage. Due to the overrepresentation in the Senate of small, rural states, the average urban voter has significantly less political weight than the average rural voter. While Democrats may still continue to win the House of Representatives, especially as they gain ground in suburban areas that were a source of strength in their 2018 wins, the Senate would be increasingly out of reach.

The result would be a political system in which districting would be even more important than before, with legislative elections increasingly influenced by the drawing of constituency boundaries to include or exclude certain groups. This would be a particular issue at the state level.

College vs non-college educated

A second dividing line in politics that is becoming more significant is whether a voter has attended college. One recent poll in Minnesota, a potentially significant state in 2020, found that white voters with a college degree favoured Biden 58% to 39% while white voters without a degree supported Trump 54% to 32%. A continuation of this trend would reshape the Democratic Party as it grapples with the rise of Trump supporters among groups that it previously saw as natural Democrats.

A post-Trump Republican party

The Republican Party of the 2020s could go in a number of different directions, depending on how far it continues to embrace Donald Trump's approach to politics and policy.

Nationalist populism

The agenda of the Trump campaign in 2016 was similar to that of many European populist parties. Trump promised to protect government programmes like Social Security and Medicare, but to restrict benefits from flowing to those who were unentitled -- in this case immigrants. The process of dividing the population into 'deserving' and 'undeserving' and then discriminating in the distribution of government resources between the two could easily continue during a second Trump term or under a successor who explicitly seeks to continue the Trump project. A populist government would be less likely to engage in international agreements or take part in global institutions, further removing the United States from a leadership position in the world.

Corporatist conservatism

If Trump were to lose heavily in 2020, he risks being dismissed as an outlier in the conservative tradition. Republicans would point to the pre-pandemic economy as the brightest spot in Trump's administration and cite the 2017 tax cut package in support of their claim. A Trump defeat may see the party seek to win back suburban voters with pledges to reduce government spending again after the pandemic-related stimulus efforts.

If a Biden administration sponsors a major recovery package early in its first term, this agenda could see Republicans borrow rhetoric from the Tea Party movement of 2009-10 to sharpen the distinction between fiscally prudent Republicans and spendthrift Democrats. However, a Republican party that emphasises its fiscal policy can also be expected to re-join international institutions, if only to ensure that they adopt positions that support the free market. This will set up more clashes with China. Disagreements

with the European Union will also emerge, as trade deals fall apart on US demands that Europe should loosen its agricultural regulations.

White grievance politics

Whichever economic policies the Republican party adopts in the 2020s, there is a question of whether it will seek to use racial or cultural divisions as a means of securing the support of white voters. In the party-commissioned “autopsy” after the 2012 election, which saw President Obama re-elected, it was recommended that the Republican Party make a concerted effort to reach out to non-white voters. However, Trump won the primary in 2016 precisely by running against this strategy.

The result is a dilemma for Republican candidates. In the 2000 election, George W. Bush won 62% of non-college educated whites who scored highest on racial resentment; in 2016 Trump won 87% of that same group. This means that candidates seeking to win primaries have an incentive to play on white racial grievances. Yet doing so could hurt them with the more diverse electorate in the general election and goes against long-term demographic trends that will see the United States become a majority non-white country by the 2040s (as it already is in some big cities and among those younger than 15).

Like the Democrats, the Republican Party is a coalition. Its constituents evolve, requiring policy pivots. Beyond race, younger voters in both parties are more concerned about climate change while public health has become an issue for older voters in the Republican Party. Hispanic Catholics are a growing part of the electorate, with different concerns than evangelical Protestants, which themselves are split between white and black churches. Suburban voters are bifurcating between near and far-suburbs, and the pandemic’s promotion of home working and e-commerce may shift the political dynamic of suburbs and small towns in permanent ways that have yet to become clear.

These are difficult trends to adapt to, as the party has drifted away from the position of a traditional centre-right party and is now measurably closer to populist parties like Poland’s PiS and Turkey’s AKP. If grievance politics dominate, then the US role in international institutions is likely to decline, as cooperating with foreign governments rather than competing with them would be seen as a sign of weakness.

A Biden-Harris Democratic Party

The Democrats have also undergone a shift in recent decades. Although this has been less evident than the transformation of the Republican party, the inclusion of more college-educated white voters alongside more urban voters, and the loss of traditional blue-collar unionised industrial workers, has left it straddling divides on social and economic issues. While internal party tensions are not new, it is not clear which faction will come out on top in policy debates.

Culture vs economy

The Democrats have lost some support among white voters because of the party’s position on social issues, and the Trump presidency has largely held on to those who have changed parties. As the Democrats are invigorated by those on the left (see below), it will find it hard to tack to the right on social issues in an effort to win them back in a post-Trump era.

However, the voters who switched from Obama to Trump could be attracted back by an emphasis on economic issues, and particularly the economics of healthcare. Emphasising the need to make all aspects of healthcare affordable, and the role that the government can play in achieving this, may appeal to those for whom affordable healthcare is a central issue. This may become the Democrats’ focus more quickly if Biden fails to win the presidency.

Left vs centre

The strength of the primary campaigns mounted by Senator Bernie Sanders in 2016 and again in 2020, has reinvigorated internal party debates around key issues. Under Bill Clinton in the 1990s, the party moved closer to the centre ground of American politics as Republicans moved to the right. Joe Biden and Kamala Harris are both heirs to this centrist position, but younger party activists are closer to more left-wing policies laid out by Sanders and embraced new leaders such as Representative Alexandria Ocasio-Cortez of New York.

During Trump's first term, these policy debates have been largely theoretical with the Democrats out of power. A Biden White House, especially if coupled with a Democrat-controlled Senate, would be under pressure to implement policies not only on issues related to the environment but also on areas that fundamentally affect the relationship between the economy and the government. The Sanders idea of Medicare for All is the prime example, but there will be others including those tied to economic and racial inequalities.

Prioritising climate change issues

One area that could unite the party's factions is the need to address climate change. There is broad agreement about its causes and its impacts, as well as the need for mitigation efforts. A climate package that is deficit financed could contain enough elements to satisfy most Democrats. Climate-related policies also have the potential to facilitate compromises in other policy fields. The pace of change will not be fast enough for some and too costly for others, although carbon pricing looks to be the issue that gets the two wings of the party in step, particularly if some of the resulting tax proceeds are directed to lower-income households. However, the importance of the issue mandates that the party needs to work together to present a united front. The extent to which Biden has moved his own position towards that of those promoting the New Green Deal is hard evidence of that.

The future of the Senate

Because each state has two Senators irrespective of all demographic and geographic considerations, it is theoretically possible for 16% of the population to elect the majority of the Senate. In reality, the situation is not that extreme because partisanship is not strictly correlated with state populations, but the Senate [is becoming less representative of the country](#).

The most populous five states, which have a total of almost 125 million people or more than one-third of the country's population, are represented by just 10 Senators in a chamber with 100 seats. States with small populations tend to be rural, and rural states tend to be conservative, so that the Senate is more than twice as representative of rural voters than it is of urban voters.

There is some potential for change, especially if the Democrats manage to capture a Senate seat in Texas as they nearly did in 2018, but at the same time Democrats are losing ground in states that have previously been strongholds, such as Minnesota. There is little likelihood that the built-in advantage that the Republicans enjoy in the Senate will be eroded during the coming decade unless a structural change is made.

This change may come from an unexpected quarter. A sweeping success for Democrats in the November elections could see a major push to elevate Puerto Rico and the District of Columbia to full statehood. This would increase the number of American states to 52 and add four more seats to the Senate, all of which have a strong chance of being won by Democrats. This would not eliminate the bias in the Senate towards rural areas, but it would go some way towards reducing it.

Future of the Supreme Court

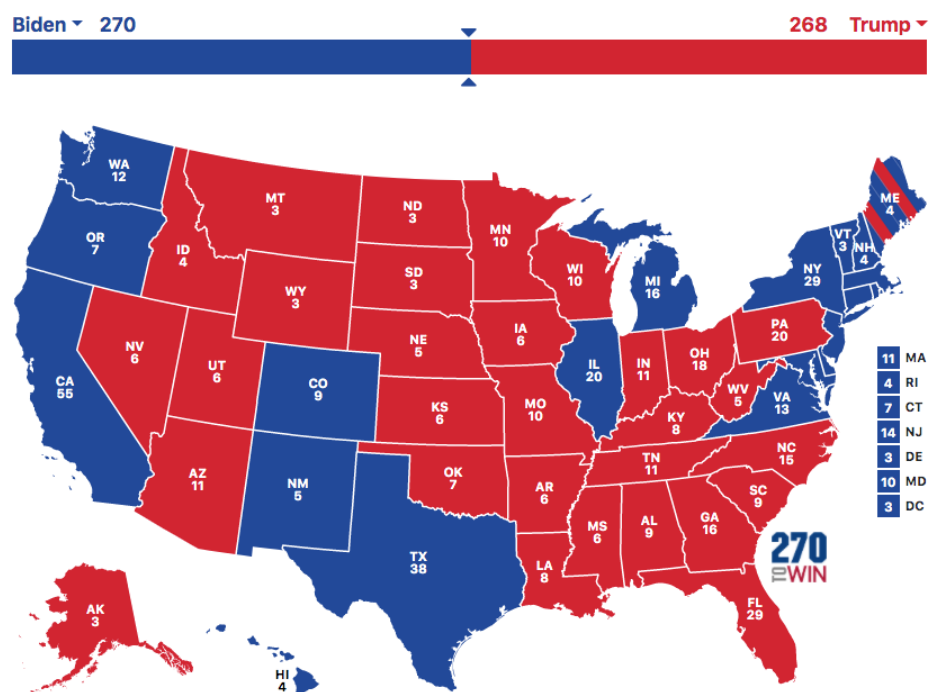
If Biden wins the election and Justice Ruth Bader Ginsberg's nominated replacement, Amy Coney Barrett, is confirmed before Inauguration Day, there will be growing pressure from within the Democratic Party to expand the size of the Supreme Court by amending the Judiciary Act of 1869. This would likely involve placing two to six additional Justices on the Court and could include an increase in the number of judges in Federal District and Circuit Courts. The change could be made simply by passing legislation. No amendment to the Constitution is required.

One trend that has been apparent throughout the last 120 years, but which has accelerated during the past half-century, is the development of the Supreme Court into a quasi-policy-making body. The United States is unusual in having a supreme judicial body that, because of lifetime appointments, has the potential to advance certain policy preferences for decades beyond the term of office of the President who nominated specific Justices to the Court. If Republican control of the courts persists through the 2020s, and the courts regularly strike down legislation enacted by Democratic policymakers, then the legitimacy of the system will be called into question even more than it is already.

Blue Texas

The Electoral College could be reformed or even eliminated under a situation in which Texas moves to become reliably Democratic. Because of the size of the state's population, which translates into the votes it has in the Electoral College, a Democratic candidate who wins Texas could lose most states that are currently considered swing states, or even some that had been reliably Democratic, and still win the presidency.

Democratic success in Electoral College with victory in Texas



Source: 270TOWIN

If Texas became reliably Democratic over the coming decade, then it would take a substantial Republican lead in the popular vote to deliver a Republican President, and Republicans have won the popular vote only once since 1988.

So long as the role of the Electoral College benefits one party or the other, there will not be enough incentive for change. But if the Republican advantage begins to erode, the opportunity for reform may grow if bipartisan support can develop for a constitutional

amendment that would establish direct popular voting for the President. Change of this magnitude is likely to be incremental unless another close election this year focuses critical attention on the Electoral College.

Conclusion: What next for the US and the world?

The near-term impact of a Biden presidency will turn on what he can achieve in his first two years. Two key drivers of that will be the severity with which Covid-19 persists, and its resulting effects on the economic recovery, and how the Democrats do in this year's congressional elections. Without control of both the Senate and the House, Biden will be highly constrained in his ability to lay the foundations of his long-term climate and infrastructure plans that could shape the US economy for the rest of the decade, or in making many of the tax changes that will be necessary to fund them.

A divided Congress will draw him into political stasis that will sap momentum. There is the danger of internal divisions if progressive Democrats, whose numbers are likely to be swelled by November's elections, feel frustrated by a lack of progress on their key issues. As he is expected to be a one-term President, he could quickly turn into a lame-duck. The resulting uncertainty would be more unsettling for markets than the expansion of government and taxes that Biden's plans imply.

Climate issues will be the lightning rod for any Democratic party divide. Biden has moved significantly in the direction of the progressive wing of his party to forestall it. He has also made significant shifts on his position on the net neutrality framework to preserve an open internet and prevent broadband companies from charging consumers or content suppliers' preferential rates for differing levels of service. He has belatedly come round to his party's near consensus that the deregulatory undoing of net neutrality by the Trump administration will be reversed, and likely given high priority.

As noted above, Biden's tech-related policies are mostly underpinnings to his plans to address social and economic inequalities and promote economic recovery. The greater adoption of e-commerce, remote working, telemedicine and online education during the Covid-19 pandemic highlighted the 'digital divide' in the United States and disparities by race, class and geography in accessing high-speed internet and other technologies. Companies in those sectors are likely to be winners in a Biden administration, just as they have been during the pandemic.

The sharpest divergence of a Biden presidency from the policies of the Trump administration would be seen in climate and telecoms policy, notably with the promotion of non-fossil fuel technologies and the restoration of net neutrality. Differences over issues from infrastructure to technological decoupling from China and reining in the power of social media platforms would be ones of tone and degree.

A Biden administration's relationship with 'big tech' would be neither hostile nor as cosy as it was under the Obama administration. His running-mate Kamala Harris's record as California's attorney general does not suggest she would push for the Biden administration to support break-ups of Big Tech on anti-trust grounds as some on the left of the party have demanded. When in state office, she took no action to constrain industry consolidation, even as firms such as Facebook and Google were growing by acquisition. Thus, efforts by other Democrats to push anti-trust actions against Big Tech are likely to proceed slowly at best.

Harris, like Biden (and Trump), has called for the social media platforms to crack down on misinformation. This would be in line with Biden's preference for targeted regulation, and less threatening to the platforms' business models. However, perceptions of foreign interference in November's elections could heavily colour future controls on social media and accelerate the timetable for implementing them.

Though Biden talked little about data privacy during the campaign, beyond general statements of support for regulation and protecting user data, he is likely to advance federal standards for the collection and use of personal data as strict as those required by California state law.

Biden's proposals to restore tech manufacturing jobs are likely to be as unsuccessful as Trump's. If re-elected, Trump will diffuse his focus on the trade aspects of the US-China relationship and switch it to technology decoupling and the thwarting of China's military development, which is increasingly technology-based. Sanctions, together with limits on Chinese and US companies doing business and US government procurement restrictions, will likely expand beyond the narrow confines of telecoms equipment and networks and the advanced semiconductors that China still needs to buy from the United States. Ancillary manufacturing industries will increasingly be drawn into the web of restrictions.

Trump will also continue his crusade against China over the Covid-19 pandemic, especially as it is now a more personal issue for him. Vaccine nationalism could be one consequence of this, providing a potential geopolitical risk point. For rich nations, it will be difficult to reconcile shouldering much of the expense of developing vaccines but prioritising countries that have fared worst with the pandemic. However, if countries with the highest needs cannot access an adequate number of vaccines, the global mortality burden will be higher than it would otherwise be and the economic impact of the pandemic prolonged.

The underlying focus of Trump's first term was his re-election. His second term is likely to see him devoting much effort towards securing the election of his chosen successor, probably someone who shares the same family name. Were Ivanka Trump to become the first female US President, he would see that as his ultimate victory over Hillary Clinton.

Should Trump lose the White House, and especially if the Republicans lost the Senate as well, the party could remake itself in relatively short order. It is proving a far more malleable party than the Democrats, having morphed remarkably quickly from a party of free-trading, fiscally responsible, internationalists to one of populist economic nationalists in the image of President Trump. It could revert as rapidly, or even split along economic, cultural or ideological lines.

Trump did not create the forces that propelled him to the presidency, and they will persist. Those forces were born out of the reaction to the globalisation that culminated in the 2008 global financial crisis. If that crisis is any guide, in many advanced countries austerity will follow the debt build-up from the necessary increase in government spending to combat Covid-19. This elevates the risk of renewed populist backlash. So does the possibility that the pandemic has accelerated the inevitable loss of jobs to technological change. In a country already as economically unequal and racially charged as the United States, this could create another driver of political volatility but also greater political violence over the longer term.

That is why this election is potentially pivotal and could prove a prelude to a decade marked by political unpredictability. Transitions between administrations depend on norms and traditions more than constitutional arrangements. Thus, there is a high risk of a confused, chaotic and uncooperative transition should a defeated Trump choose to make it so, with a non-trivial risk that elite political contention will spill over into the streets.

How the United States handles the transition in the event of a change in administration will be a test of the robustness of its political institutions. The outcome will be watched around the world as a measure of the power of US democracy. In Western European

capitals, there will be hope for a return to understandable diplomacy and a familiar world order led by a predictable Washington that believes in multilateral global governance. By contrast, Beijing, in particular, will be looking for confirmation of its beliefs that Western democracy is inherently unstable and that the United States is in long-term secular decline.

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