2024: What's at stake for Asia in a major election year

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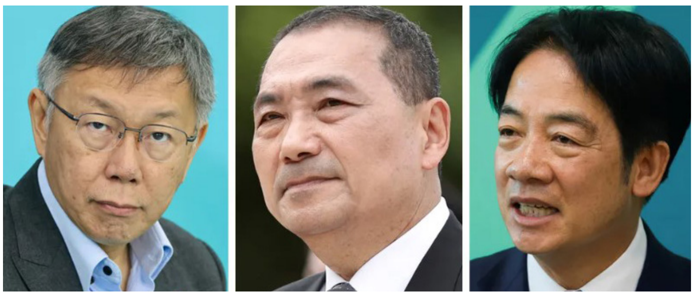
The election calendar is quite busy this year in Asia, including in heavily populated countries such as India and Indonesia and a politically highly sensitive country (Taiwan). Elsewhere, the US presidential election is not without repercussion on the current tense climate with China. How should we read this electoral calendar, and what are the major stakes involved?

TAIWAN
PRESIDENTIAL ELECTION OF 13 JANUARY

This is one of the most important events of the start of the year. Relations between Taiwan and China are a flashpoint of global geopolitics against a backdrop of the rivalry between China and the United States, one of Taiwan's most important allies.
The incumbent president, Tsai Ing-Wen, of the Democratic Progressive Party (DPP), has been elected twice in a row since 2016 and is therefore ineligible for re-election. In her New Year's address, she pointed out what is ultimately one of the main issues of the campaign – Taiwan's relations with China. She called on Beijing to keep the peace in the region and defended her policy: *"We will not provoke or submit, but we will earn the international community's trust and deepen our cooperation with democratic partners, so that we can confidently and calmly face the world and China"*. She also stated that communication with China was important, but that it would be *"too heavy a price to exchange our sovereignty for this communication"*. Tsai Ing-Wen also boasted of the policies that she had implemented during her eight years in office, particularly in making Taiwan more attractive to foreign investment, reducing its dependence on trade with China, and strengthening its national defence.



Ko Wen-je, Hou Yu-ih and William Lai Ching-te

Tsai Ing-Wen is very clear in her stance on Taiwan's relations with China, but this stance does not look truly compatible with that of Chinese President Xi Jinping. Xi also spoke on New Year's Day, reiterating that China is bound to be reunified, a reference to Beijing's goal of ultimately taking control of Taiwan, by force if necessary. President Joe Biden has stated on several occasions that the US would come to Taiwan's aid if it was attacked.

The DPP's candidate is William Lai Ching-te. He holds the same stance as Tsai Ing-Wen on relations with China. The main opposition party, the Kuomintang (KMT), is Beijing's preferred negotiating partner. KMT's candidate is Hou Yu-ih, the mayor of Taipei. A third candidate, Ko Wen-je, of the Taiwan People's Party, is trailing in the pre-election polls.
William Lai Ching-te is currently leading in almost all pre-election polls, with a rather comfortable margin of about 5 percentage points on average. Keep in mind, however, that this lead has shrunk since last summer, as the economic situation has become more challenging and young people are having greater difficulty finding housing in recent months. **William Lai Ching-te is nonetheless likely to emerge victorious, which would mean that Taiwan would mean a status quo on policy. It will then be time to gauge Beijing's reaction.**

INDONESIA
GENERAL ELECTIONS OF 14 FEBRUARY

General elections in Indonesia – with a population of 270 million, the world's third-largest democracy – will be held on 14 February 2024. Joko Widodo, who has led the country since 2014, is ineligible for a third term despite an 86% approval rate last October. The incumbent president will nonetheless retain considerable sway over Indonesia's political and economic landscape.

Gibran Rakabuming Raka, the eldest son of Joko Widodo, is running for vice-president and is allied with Prabowo Subianto, the current minister of defence and a candidate for the presidency. They are far out front in the latest polls, with 39.3% of the votes. Despite some ideological differences, Prabowo Subianto, a conservative nationalist, is regarded as the candidate of the status quo and is likely, on the whole, to stick to Joko Widodo's policies. Recent reforms, such as the focus on strategic industries (rare metals, electric cars, etc.) and efforts to attract foreign investments, are likely to be retained after the elections and allow Indonesia to stay on a sustained annual growth trajectory of 5% on average.

Gibran Rakabuming Raka and Prabowo Subianto

Anies Baswedan, the former governor of Jakarta and in second place in the polls, with 16.7% of the votes, has chosen Muhaimin Iskandar, the head of Indonesia's main Islamic party, as running mate. Seen as the candidate of change, Anies Baswedan has stated that he will move away from some of the current government's policies.

Ganjar Pranowo, the former governor of Java Centre, is running third in the polls, at 15.3%. Ganjar Pranowo is affiliated with the Indonesian Democratic Party of Struggle (PDI-P), Joko Widodo's flagship political platform which propelled him to the presidency in 2019. Like Prabowo Subianto, he is regarded as a symbol of stability and would be likely to stick to most of Indonesia's current economic strategies.

So it would appear that Indonesia will stay the course, which would be rather good news, given its economic development in recent years. Indonesia's equity market is a true regional player, accounting for 3.75% of the MSCI EM Asia ex-China. The aggregate market cap of the MSCI Indonesia amounts to almost USD 130bn.

SOUTH KOREA
LEGISLATIVE ELECTIONS OF 10 APRIL

The biggest stakes in South Korea's upcoming legislative elections is in its foreign policy. Domestically, there is not much difference in economic policy between the two main parties, i.e., the ruling Democratic Party of Korea (DPK), and the People Power Party (PPP), which is the party of the incumbent president and has had to share power.

South Korea's potential growth has shrunk in recent years to an estimated 2%, driven down by one of the world's lowest birth rates, at 0.8 children per woman. In addition, there are budget constraints. During Covid, for the first time in 25 years, South Korea's budget slipped into deficit, and the consensus goal is to shrink it rapidly.

The main issue in these elections is foreign policy. South Korea is under threat from a nuclear armed North Korea. The current debate is over defence strategy, with two options: 1/ South Korea can either place itself forever under the US umbrella, at the risk, however, that US domestic politics could cause it to alter its stance. Under this policy line, South Korea would continue to focus on economic development and its mercantilist strategy; or 2/ It can invest more in its defence industry. Neighbouring Japan is also thinking of investing in weapons, even nuclear-capable ones. Meanwhile, South Korea is dependent on the Chinese economy, and, in the current environment, excessively close relations with the US could be harmful from this point of view.

The polls are currently very close, with 35% of voters undecided, 29% for the PPP and 25% for the DPK.

The Korean equity market is a major player in Asia, accounting for 25% of the MSCI EM Asia ex-China. The MSCI Korea index has an aggregate market cap of USD 860bn and a heavy 48% weighting in the key sector of information technology.

INDIA
LEGISLATIVE ELECTIONS FROM MID-APRIL TO MID-MAY

India is now the world's 5th-largest economic power in terms of GDP, having moved up six places in 10 years. Its economic momentum has been driven by Narendra Modi's policies and, more recently, by Western investment inflows as part of an effort to reduce China risk.

After leading India for 10 years, Prime Minister Narendra Modi remains popular, despite a rather authoritarian domestic policy including an ideological bent in favour of orthodox Hinduism vs. other religious minorities and a revisionist take on Indian history. This autocratic drift could ultimately cause more serious tensions domestically.

But on the economic front, Modi has had some success, with several reforms that have lowered structural obstacles facing the Indian economy, including a shortage of infrastructures, a weak industrial fabric, an underdeveloped educational system, administrative fragmentation, bureaucracy, corruption, etc. Among the main successes:

- A major tax reform in 2017, with the implementation of a single national goods and services tax that replaced countless local taxes;
- Simplification of the bankruptcy code and procedures for starting up businesses;
- Digitalisation of administrative procedures, which has simplified Indians' daily lives and helped accelerate the percentage of the population holding a bank account, etc.
- Investments in the energy transition, with a 2070 zero-carbon goal, particularly in solar infrastructures and the development of a green hydrogen industry.

Meanwhile, the government has tried to stimulate the manufacturing sector, India's major weakness compared to China in particular. Manufacturing output accounts for just 17% of GDP, whereas 12 million people annually will enter the job market in the coming years. The goal is 25% of industrial added value by 2025, with the creation of 100 million jobs. This goal will get a big boost from international investments driven by the "China+1" strategy (i.e., avoid investing in China alone while diversifying activities into other countries).

As a result, India's potential growth has increased, and its GDP is expected to expand by 6.5% annually in the coming years. Narendra Modi's policies have been cheered on India's equity markets. The MSCI India gained 20% in 2023 and has almost doubled in five years (in USD terms). The index's aggregate market cap now surpasses USD 1,100bn, with 122 stocks.

So the markets would cheer another victory by Narendra.

The general elections scheduled to begin in mid-April, involve 543 members of the lower house, called the " Lok Sabha". Many parties are in the running, but Indian politics have polarised around two major parties; Modi's National Democratic Alliance (NDA) and the Indian National Development Inclusive Alliance (INDIA). 272 seats will be needed to secure a majority, and the prime minister will emerge from the winning party. At the last elections, in 2019, the NDA won 303 seats. **The polls currently suggest that the NDA will win between 295 and 335 seats, hence another term for Narendra Modi.**

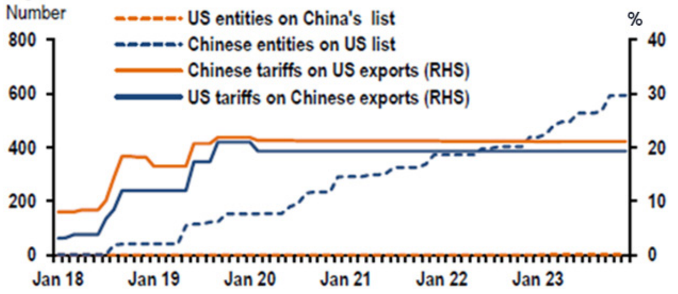
UNITED STATES
PRESIDENTIAL ELECTION OF 5 NOVEMBER

The US presidential election will have an impact on Asian economies, China in particular. As president, Donald Trump was the first to call out the "China danger". The massive offshoring of US and European industrial capabilities have allowed China to develop very rapidly and to acquire much know-how, thus contributing indirectly to the deindustrialisation of Western economies.

China's manufactured goods surplus relative to global GDP is now around 2%, a level probably unseen since the US after World War II. Almost 45% of China's manufacturing output is exported, which leaves it vulnerable to trade restrictions. This surplus production capacity cannot be absorbed by the Chinese domestic market alone. Hence, China's decision to shift gears towards boosting domestic consumption and leveraging three vectors of growth and excellence: electric vehicles, batteries and renewable energies. But, here again, China needs to export. That being said, "populist" rhetoric of a trade war with China played well with US voters and propelled Donald Trump to victory in 2016, and this theme still seems to be effective. Import tariffs on Chinese goods put through by Trump have not been rescinded by the Joe Biden administration. The Sino-US rivalry repeatedly came to the fore in 2023, despite a resumption of dialogue at the highest levels. The US has increased the number of sanctioned companies and restricted exports of cutting-edge technologies, such as semiconductors. In reaction, China has imposed business restrictions on some US companies in China, as well as export embargos on 14 rare metals, such as gallium and germanium, which are needed for the energy transition.

The US election campaign could therefore be marked by an uptick in anti-China rhetoric. The medium-term risk is that we are headed for a multipolar world, with the possible formation of partnership blocks, perhaps between China and some other emerging market economies such as South Africa, Saudi Arabia, Russia and others. This would give rise to a more protectionist, structurally more inflationary world. Meanwhile, a more isolationist US could have repercussions in Asia by boosting military spending and, worse, by unleashing regional conflicts.

US-China trade tariffs and sanction lists



Sources: PIIE, J.P. Morgan

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