

**Let's Wish Him Well**  
**Why Asia Would Want Trump to Succeed**

Jan 17, 2017

*In the spirit of "Not all those who wander are lost", we are launching a new series of reports called Weekly Wander, where we will take a close look at specific global developments and examine why and how they matter to Asia – and thus to you. To initiate, we thought it timely to zoom in on the incoming 45<sup>th</sup> US President.*

- When Donald Trump is sworn in this Friday, he will be inheriting an economy that has been growing rather robustly. For Asia's sake, let's hope that the growth momentum will remain strong under his watch.
- That is because the alternative would be worse. If US growth falters, the need to apportion blame would see the new president's already restless protectionist instincts go on hyper-drive – a bane for Asian exporters.
- To distract attention away from any economic shortfall, it may be tempting for him to play up the notion of geopolitical threats, as well, which would also inevitably leave Asia worse off.

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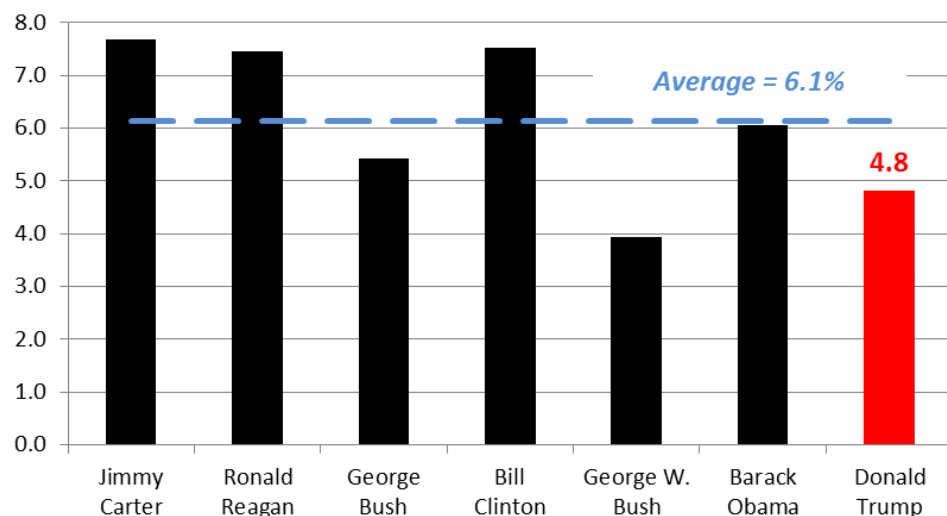
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**Hope It Stays on Track**

US economic recovery looks to be on track. Unemployment rate, for one, has been on a steady decline. Indeed, if we compare how things look now just before Donald Trump is inaugurated, the US labor market appears to be one of the most favourable, versus what his predecessors had faced.

Over the past three months, the US unemployment rate has averaged 4.8%, much lower than the average 6.1% facing six of his predecessors over the past 40 years. Indeed, starting from Jimmy Carter, only George W. Bush had been presented with a lower unemployment rate when he moved into the White House in 2001.

**Unemployment Rate, %; 3m average before inauguration**



Source: Bloomberg, OCBC.

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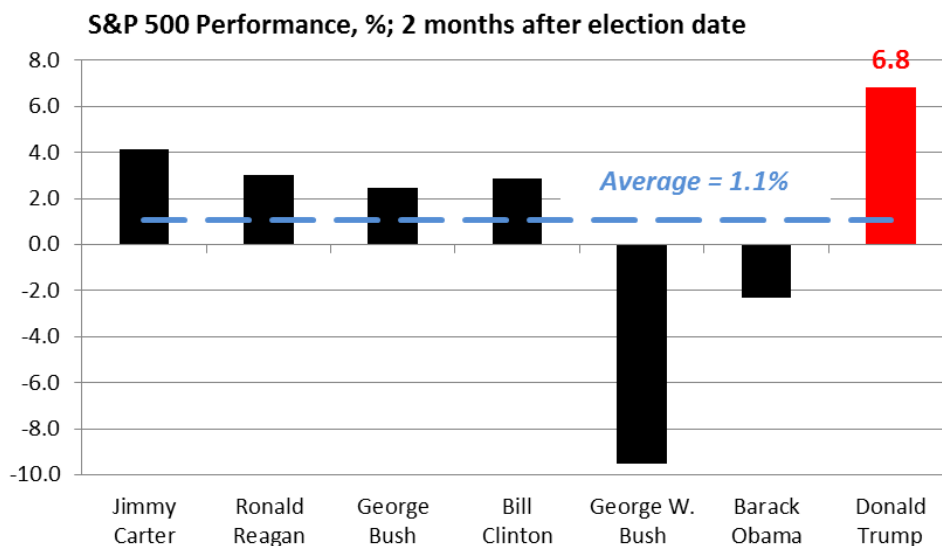
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Of course, being handed a strong starting point can be a double-edged sword for any leader. This may be even more so given that there appears to be a huge degree of expectation in terms of the extra boost that Trump can offer to the US economy, judging from the stock market performance since he dramatically won the presidential election on November 8<sup>th</sup> last year.



Source: Bloomberg, OCBC.

Indeed, in the 2 months since his election, S&P 500 index has notched up gains of 6.8%, much higher than the comparable transition periods since late 1970s which averaged 1.1%. The market reception to his presidential win looks even more starkly hopeful if we compare it to the deep slumps that happened when his two immediate predecessors took over, with George W. Bush coming in right when the IT bubble burst and Barack Obama battling Global Financial Crisis from day one.

### Credits to Claim, Failures to Blame

Hence, one way of looking at what lies in wait for Trump is this: Not only is he inheriting an economy that is already growing relatively robustly, there is also tremendous expectation that he would make it even better. That is a tall order in normal circumstances, but may be even more so given the big unknown of whether his administration's relative lack of direct policymaking experience could work against him. Overall, however, as we would discuss below, Asia should hope that the US economic momentum stays strong enough for him to claim credit for, rightly or wrongly.

That is because the alternative scenario whereby US growth slows – or even goes into recession as some worry about – could mean significant problems for Asia. This is not just a classic contagion issue whereby Asia's growth dips following slowdown in the American economy. While that can be a problem, there is much more at stake this time round.

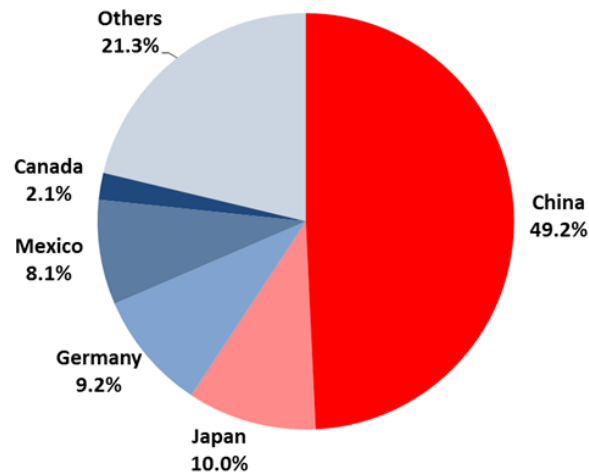
As it is, even as global markets are already casting a wary eye on Trump's protectionist instincts, there appears to be still a vein of hope that he would tone down on them in practice once he comes to office. While we do have that rather optimistic view as a baseline, we are nonetheless concerned that any rational restraint will be chucked out of the window should the economy turn south.

To put it another way, even as Trump's threat of imposing punitive tariffs on trading partners may well be just threats to negotiate for better deals, rather than actual policy plan at this point, it is not hard to imagine the administration yielding to the temptation of scapegoating any economic failure on external factors and actually carry out such threats. Here, we are reminded of another influential American

family patriarch, Homer Simpson, who offered these wise words to his wife, “*Now Marge, just remember, if something goes wrong at the plant, just blame the guy who doesn’t speak English.*”

Jokes involving fictional characters aside, it is an increasingly sobering reality that some countries, which are seen to be trading the most with and at the expense of America, will be in the crosshairs even more. Already, Trump has directed his angst-ridden rhetoric against Mexico repeatedly. Even before he officially assumes the office, Trump has already compelled various manufacturers, through his tweet-storms, to refrain from setting up plants in the southern neighbor.

**US Trade Deficit, 2015, % share by trading partners**



Source: US Census Bureau, OCBC.

From the perspective of overall US trade deficit, however, Mexico’s share is actually not all that much, contributing 8.1% of the total shortfall in 2015, for instance. In contrast, over the same period, China constitutes by far the largest share of US trade deficit. At 49.2% share, this means that for every two dollars that US as a whole ‘suffers’ in terms of trade deficit, one dollar goes to pay China’s exporters.

That makes China a potential prime target for Trump, should the US economy falter and the new president feel the need to apportion blame for it. The fact that his line-up of advisors includes the likes of Peter Navarro – the head of a newly created agency called National Trade Council who has written books with such friendly titles as “Death by China” – can only make that possibility greater.

A tit-for-tat increase in tariffs between US and China, if it comes down to that, would not affect the two countries alone, but would most likely ripple through the long supply chains that extend through various economies in the Asia-wide networks, as well. Even as some economies that are more domestically oriented, such as Indonesia, should be able to ride out the impact relatively well, the reality is going to be a lot harsher for those that are dependent on exports.

Moreover, the danger that any downturn in the US economy would bring the more caustic bits of Trump’s policy spectrum to the fore applies beyond economics to the geopolitical sphere, as well.

Here, in the event of economic shortfall, one way for the US leader to shift attention away would be to play up the notion of geopolitical threats. If his apparent partiality towards Russia remains, one of Trump’s natural candidates in this scenario may unfortunately be China. How that would then play out for Asian countries in terms of their relationships with either US or China would be hard for us to characterize, but it is unlikely to be easy and positive to say the least. Just another reason, then, to hope that the US economy will stay strong enough for the incoming president to proudly tweet about.

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