

The Good, the Bad and the Ugly

Impact of US political tussle on Asia

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- **It's in the Emergency Room.** That's how one might characterize the state of the healthcare bill that US President Trump and House Speaker Ryan are trying to push through to repeal and replace Obamacare.
- **Why should Asia care?** On the surface, for no good reason, since it's inherently a domestically oriented policy. Dig deeper, however, and you'll realize that things are no longer as straightforward.
- **With a hat tip to a Western classic,** we dissect how the recent tussle at the Capitol Hill – whether the bill itself ekes through or not – could impact Asia in a good way, but also carries the risk of turning out bad or even ugly.

Capitol Complications

It wasn't supposed to be this hard. Repealing and replacing Obamacare has been a rallying cry for the Republicans since the national healthcare legislation formally known as the Affordable Care Act was passed seven years ago. During his campaign, President Donald Trump repeatedly called it a huge disaster, a stance that he has kept since assuming office. With the Republican party controlling the majority of both the House of Representatives and the Senate, and the backing of the White House, repealing Obamacare and replacing it with the American Health Care Act (AHCA) should have been a shoo-in.

Alas, things have not worked out that way. Indeed, the vote that was supposed to take place on Thursday evening was postponed to the next day, without any firm indication as to whether the Republican leadership has secured enough votes to pass the bill.

The sticking points seem to be aplenty. For moderate Republicans, the main drawback was that the new bill is projected by the nonpartisan Congressional Budget Office to kick as many as 24 million Americans out of coverage in a decade. For the Tea Party advocates under the Freedom Caucus, they are taken aback by the fact there would still be significant government spending. Indeed, that concern might have grown even more since the CBO released a new set of estimates showing that, because of recent amendments to try and win more moderates over, the deficits reduction compared to the original Obamacare would be just USD150bn, compared to USD337bn before.

Going by a tally by the Washington Post, 34 Republican House members have explicitly said that they will vote against the healthcare bill. Given that they can only afford a maximum of 22 'nay' votes with a presumed zero support by the Democrats in the House, it appears that the bill will not be passed as and when it is tabled.

Now, things might still turn. It is politics after all, and Trump's take-it-or-leave-it ultimatum, that either the House passes the bill as it is or Obamacare would stay, may yet swing the tally. Still, as we discuss below, whether the bill goes through the House (only to face another round of uncertainty in the Senate) or not, there are important implications for Asia from this episode: be it the good, the bad, or the ugly.

Treasury Advisory

Corporate FX &

Structured Products

Tel: 6349-1888 / 1881

Fixed Income &

Structured Products

Tel: 6349-1810

Interest Rate

Derivatives

Tel: 6349-1899

Investments &

Structured Products

Tel: 6349-1886

Wellian Wiranto

Economist

Treasury Research &
Strategy,

Global Treasury,
OCBC Bank

+65 6530-5949

wellianwiranto@ocbc.com

First, the Good

The fact that the Republican Party has skirmished this much to accomplish something so central to its political agenda even as it commands so much of the political power has inadvertently caused market players to reassess their baseline assumptions for the so-called Trump Reflation Trade. The sense is that, despite the control of Congress and the White House, the internal ideological differences that have been exposed by the healthcare act tussle would also be affecting the prospects of tax cuts and infrastructure build-up that gave market the fillip after November's elections.

Now, in what ways is that good for Asia? Well, if you take the view that Asia is most concerned about a more hawkish Federal Reserve and thus the potential for sudden US dollar resurgence, any pullback in the probability of this scenario can thus be seen as a plus. And, if because of the healthcare setback, Trump's chances of pushing through his fiscal agenda go down, the possibility of the Fed being forced to hike more forcefully to counter inflationary pressures that creep up because of extra growth spurt would therefore also be reduced.

For most central banks, such as Bank Indonesia, which have signalled that it is assuming a total of three rate hikes by the Fed this year, a more remote possibility of such an unfriendly scenario would thus be a good thing. After all, even with a total of three rate hikes by the Fed this year, most central banks in the region can still keep their policy rates unchanged, rather than having to hike rates to preserve some interest rate differentials.

Now, the Bad

There is no such thing as a free lunch, however. The flip side of the healthcare fight is the potential for risk sentiment to sour, not just against US assets that had benefited from the Trump reflationary prospects, but also against global assets more broadly.

For now, there remains a distinction between market sentiments towards US and the rest of the world. Emerging markets in particular appear to be actually benefiting from the political uncertainty in the US. A daily capital flows tracker by the International Institute of Finance, for instance, notes that emerging market bonds have seen the largest weekly pick-up in inflows since July 2011.

Still, it is not too hard to picture a scenario whereby if the sentiment towards the US turns south enough, the overall global market sentiment, including towards EMs, might be dragged down as well. As it is, even as Asian exports have been recovering encouragingly (see "[With or Without You](#)"), that performance might have been predicated on demand from the US economy, which is still an important destination for Asian goods.

That means if US sneezes, Asia can still catch a cold. Already, there have been some indications that the US economy might have lost some momentum recently, as I mentioned [last week](#). Now, if the current fight about healthcare reforms further shakes the confidence of consumers and businesses wishing for tax cuts and other Trump promises, then there is going to be an additional risk that the feel-good factor lifting the American economy will be nipped in the bud – with negative impact on Asian economies.

Lastly, the Ugly

I know it's Friday afternoon, but I still have to point out the potential ugly impact of the US political fight. (If nothing else, it will allow me to complete the reference to the movie title).

Here, I have in mind the increased potential for the US administration to reach for protectionist measures even more should the prospect for tax reforms falter. This is an especially palpable concern if the US economic momentum does suffer a downtick as mentioned earlier. If the overall economic pie is shrinking and President Trump cannot show that he is successfully trying to enlarge it, or just simply to

stop it from further contraction, then the focus will be even more on distribution – on who are getting the bigger pieces of the pie. Already, this is an administration that appears to possess a natural inclination to think that trade is a zero-sum game, and a shrinking pie adds urgency to its zeal to make sure as much of the pie goes to “America First”. That thinking may well get translated rapidly into action, via escalation of trade tariff threats, if it feels under siege.

Already, recent reports suggest that Trump had tasked his trade team to zoom in on China’s policies towards imports of US cars. In particular, perhaps without some justification, the administration is displeased at the idea that China imposes a 25% tariff on car imports from the US, compared to one-tenth of the rate for flows of automobile going into US from China currently.

As highlighted before [back in January](#), even though Mexico has been bearing the brunt of Trump’s protectionist ire especially earlier in his term, any escalation of the risk in trade wars between China and US matters a lot more to Asia, because of the size of trade involved, as well as the inter-connectedness of China with the rest of the region.

All in all, even as the question of how much the American government should cough up for its citizens’ healthcare and when might seem trivial and distant, it is anything but so, given these potential ramifications.

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