

## Trump-Related Uncertainty Has Asia-Pacific Economies Holding Their Breath

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SINGAPORE (S&P Global Ratings) Dec. 7, 2016--The biggest change to Asia-Pacific's economic outlook is the uncertainty around Donald Trump's surprise election as the next U.S. President, said S&P Global Ratings in a report today titled, "Our Asia-Pacific Baseline Forecasts Are Unchanged, But Trumpian Uncertainties Abound."

Many of the key U.S. policies under the new administration remain undefined, leading to an unusual amount of uncertainty around the baseline outlook. We will have to wait until Mr. Trump's economic team is in place and its policy intentions become clearer before coming to a firm view on the effects and the associated risks on Asia-Pacific.

"A Trump administration's impact on Asia-Pacific will likely appear in two main areas--one with a large downside and one with a moderate upside," said Paul Gruenwald, S&P Global Ratings' Asia-Pacific chief economist. "The potential downside scenario for Asia-Pacific is trade policy, where Mr. Trump has advocated a punitive import tariff of 45% on China stemming from his assessment of currency manipulation. Such an action will almost certainly generate a strong response from the Chinese authorities, and risks starting a trade and investment war between the world's two largest economies, which is in no country's interest."

On the upside, reminiscent of the 1980s, President-elect Trump has argued for Keynesian-style infrastructure spending increases and tax cuts, which could boost U.S. growth and thereby demand for Asia's exports, at least in the short run.

"The effects of changes in U.S. growth and monetary policy on Asia's trade and general financial market confidence, whether positive or negative, will be greater on the smaller, more open economies of the region. Countries with large domestic economies--China, Japan, India, and Indonesia--will be relatively less affected," Mr. Gruenwald said.

The main event in China next year will be the Party Congress, which will lay the foundation for the second five-year term of President Xi Jinping. In terms of the macroeconomy, we project a modest lowering of GDP growth in 2017 to 6.4%, but do not expect any major macro or structural policy announcements. We believe China will continue the pattern of "extend and pretend" regarding excessive credit growth relative to GDP and lagging NPL ratios. We expect the main action to be policymaker and market attention to a faster pace of yuan depreciation against the U.S. dollar.

Things in Japan may be looking up somewhat, especially if U.S. growth picks up and the recent yen weakness persists. We expect growth of 1.0% next year and 0.7% for 2018. Inflation in the third quarter of 2016 was low at -0.5%, but we expect a gradual increase in inflation next year to 0.4%.

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