

Global Risk Watch Newsletter

Widening Populism is Becoming an Annoying Imbalance for World Economy, etc.

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1. Overview Macroeconomic and Financial Risks (Trends & Topics)

Widening Populism is Becoming an Annoying Imbalance for World Economy (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

The global markets have continued to keep its composure. Compared to last month, the prospects for the US and Chinese economies have somewhat exacerbated, but this has further confirmed the outlook of interest rate hike postponement by the FRB (Federal Reserve Board) in the US. This factor, combined with a steady crude oil price, actually laid out a rather “friendly” environment for the global assets market and foreign exchange markets of emerging economies. As we have seen this calmness in the financial market when the largest and second largest economies were slightly softened, it should be noted that the “vulnerability” of the markets have rather increased as the market could take a sudden risk-off turn once the degree of softening surpasses a certain threshold. This is after all an unsustainable “imbalance” to be addressed, between weak economy and strong financial market. And now, we are observing “another imbalance” emerging, which could pose a major long-term threat to the world economy. That is the expansion of “Populism” in the world-wide politics.

For example, the US presidential candidate Donald Trump who advocates heretical diplomatic and economic policies, which, to many, are inconsistent and unrealistic; has now become a major risk factor not only limited to the US, but also for the world economy. Since Mr. Trump became the presumptive Republican nominee for presidency, the likelihood of such a risk factor to be materialized is also increasing. Similarly, in the Philippines, Rodrigo Duterte whose advocacies tend to deny the democratic process of diplomacy and counter terrorism and crime measures, has been recently elected as the President. Both Mr. Trump and Mr. Duterte are clearly political heretical, and their advocated policies do not necessarily respect many promises made by their predecessors at home and abroad, yet they have undoubtedly emerged with strong public supports (or strong public discontent with the existing political situation). Furthermore, the Austrian Chancellor resigned abruptly after failing to block the breakthrough of the right-wing party during the presidential election. Meanwhile, the UK faces a similar situation to curb the growing public discontent for the existing political landscape; the approval rating for the pro-EU and UK-exit supporters remain widely divided towards to the Brexit referendum to be held on June 23rd.

If the momentum of such populism becomes stronger, the recently calming global markets may become affected by the growing uncertainties and return to a strong risk-off trend once again. Moreover, even though this populism tide might bring in a short-term political stability and economic stimulus effect by bashing establishment for forgetting discontent”, yet most of the policies are likely to expand unsustainable imbalances to be addressed in the medium to long-term, hence the increase in severity and probability of their bursting. The reason behind current populism flourishing in the US and many emerging countries is said to be conceived by a “widening gap between the rich and the poor” as a result of assets price bubble over “prolonged extreme monetary easing”. If the populism and extreme monetary easing would be the roots for the same imbalance, these roots could be considerably deep to be removed, and the journey to address this imbalance might be a long way to go. Hence the recent stability in the global market just seen (at least for this author) like a “castle in the sand”.

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