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Political Stability: Lessons from the East

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In recent notes we have highlighted the growing disparity between the improvement in the economic landscape visible globally and the discontent of voters expressed in elections and political campaigns across the developed world: Trump, Brexit, Catalonia and the Lombardia to name but a few.

We see this political turmoil as the key risk to continued economic recovery. Notoriously, businesses dislike uncertainty; deferred or cancelled investment simply leads to lower economic growth.

Interestingly, the key Asian economies of China and Japan are bucking this trend.

In China, political stability is imposed from the top down. The explosive growth seen in China in recent decades tends to obscure the fact that China remains a communist, one-party state. At the recent party plenum, Xi Jinping moved to consolidate his power still further leading some commentators to note that power in China has not been so concentrated in the hands of one man since the time of Mao Zedong.

Across the Yellow Sea, the Japanese, this weekend, opted for a form of political stability better known to us as they re-elected Shinzo Abe, leader of the Liberal Democrats, for the third time in succession.

The economics of both are good news for the world economy. Xi Jinping has clamped down on corruption, moved to rein in excessive credit, expanded investment via the “one belt-one road” initiative and cooled rampant property price inflation.

The re-election of Abe consolidates Abenomics; the combination of ultra-easy monetary policy with fiscal intervention to boost growth. Japan is still struggling to exit the vicious price deflation of the last twenty years but Abenomics has delivered the strongest labour market since the implosion of 1989.

There is though a darker side to the political stability of these two major economies.

Where Deng Xiaoping said “Reform is China’s second revolution,” Xinping is more authoritarian and willing to project Chinese power abroad.

As a consequence, Shinzo Abe ran on a platform to “reform” the Japanese “pacifist” constitution for which read re-militarise.

In the short-run, these events in the East are good news for the world economy. Indeed, the IMF recently upgraded their view of growth this year and next.

Nonetheless, as the world economy escapes the lingering hangover of the global financial crisis, the political risks to growth and investment will demand cool heads, much smooth diplomacy and highly intelligent appraisal of geo-political flashpoints.

Investors need to be aware of the risks and costs attached to fractured Western leadership particularly as the locus of growth shifts ever eastwards.

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