

# It's time to focus on US political risk

Blog post by Chief Economist Gregor Irwin, 20 April 2018

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The IMF's latest [World Economic Outlook](#) warns that waning support for global integration, geopolitical strains and political uncertainty have the potential to upset global growth prospects. It is not the first time the fund has drawn attention to political risks, which have become a recurring theme in recent years. Is there any reason why businesses and investors should be particularly concerned now?

The short answer is yes. But you need to dig deeper than the fund's analysis to see why. What the fund omits is that the US is a central element in just about every globally systemic political risk. Moreover, the US has flipped from being a largely stabilising force, to one that is often destabilising.

In December, the US announced tax reforms, which alone explain half the upgrade in the IMF's latest forecast for the global economy. This is a major up-side shock by any standard. It has also led to a reprofiling of expectations for interest rate rises in the US, with implications for monetary policy and financial markets in other countries. The focus of the US reforms on corporate profits and overseas earnings means they will likely impact on the tax policies of other countries as well, even if not immediately.

In the first part of this year, the US announced tariff increases on steel and aluminium and other trade policy measures targeting China, which it accuses of stealing intellectual property. We don't yet know exactly what policies will be implemented against China, or what response they will provoke, so we can't yet judge the macro impact. But we can see the far reach of the steel and aluminium measures from the falls in the share prices of German car manufacturers, not because of the direct impact, but the fear that they would soon become the target of US protectionism.

Most recently, the US Treasury unexpectedly announced sanctions against Russia, targeting 24 individuals and 12 companies, effectively cutting them off from the Western markets. This is the latest in a series of measures which reflect multiple strains in the bilateral relationship. The announcement took 10% off Russian stocks and caused a slide in the rouble. And the inclusion of the world's second biggest aluminium producer, Rusal, sent the global price of the metal up to levels not seen since 2011, adding costs to the supply chains of many companies.

There are good and bad elements to these policy shocks for businesses and investors. The more pertinent observation is that they were - to a significant extent - unexpected, reflecting political uncertainty in the US, and they have reverberated widely. When there are policy shocks in the US, they tend not to be local, but systemic, because of America's economic size, the international role of the dollar, and the importance of US financial markets to the rest of the world.

There are other areas where political choices by the US could potentially impact on the global macro outlook. In the Middle East, the US is threatening to walk away from the nuclear deal with Iran, which could be destabilising for the region and would certainly add to the existing upward pressure on energy prices. The Facebook privacy scandal has raised questions about the regulation

of the sector, extending beyond data protection to include competition policy and taxation. What the US does - or does not do - will reverberate internationally, with implications for the broader tech sector, which has become an engine of global growth. And cross-border investment, like trade, is also threatened by protectionism, with the US leading the world in tightening political scrutiny of inward investment. If this leads to a quasi-segmentation of the markets for some products or services, that will be bad for innovation, for productivity and ultimately for consumers.

The US does not have a monopoly over political risk. Far from it. There are plenty of other countries that play a significant role in the risks described above, or which are themselves the sources of political risks that could have a systemic impact. The US should, however, now be at the centre of any analysis of political risk, by the IMF or by anyone else.