



Where Next for the World Economy?

Description

Just when you thought the future looked somewhat predictable, 2016 throws up a couple of major surprises. It seemed as though the world was on a path towards increasing globalisation which would eventually see national governments replaced with political unions. Similarly, climate change was becoming more central to economic decisions, and a world where fossil fuels were no longer used did not seem all that far away.

However, the UK's decision to leave the EU and the election of Donald Trump as US President could change what appeared to be a relatively certain path for the world economy. Here's how things could now work out.

Climate change pivot

While climate change as an issue is unlikely to go away, its relative importance is likely to decline. Donald Trump is apparently less interested in climate change than his predecessor and may look to relax regulations on fossil fuel production and usage. This would tie-in with his focus on improving the economic prospects for the US.

As such, the incentive for using cleaner energy may decline somewhat in future years. This may lead to a reversal of the changes felt in the global economy, where more focus has been on improving efficiency above all else in recent years. For example, in cars there has been a focus on improved MPG, while in energy production and supply the trend has been towards cleaner fossil fuels such as gas, as well as green energy such as wind power. Now, oil producers and coal producers may see a resurgence in their profitability, while the new green economy and a focus on efficiency may fade away.

Trade wars

Trade wars could take place over the next few years. Voters in the UK and US seem to have rejected the assumption that national borders should gradually be blurred, so as to create a world where trade, travel and employment are somewhat borderless. The natural shift, therefore, could be a more restrictive global economy where there is a lack of supply of specific skills in specific regions, higher

tariffs on imports and tit-for-tat duty placed on goods imported from specific countries.

Certainly, Brexit looks unlikely to yield a particularly amicable trade agreement between the UK and EU. This could mean there is a degree of tension between the two neighbours which could negatively impact on global growth prospects. And with Donald Trump apparently in favour of protectionism, a less globalised and more restrictive global economy seems likely.

Outlook

Of course, it's not all doom and gloom for investors. There will be opportunity within a number of sectors, including resources, while global trade will continue as nations demand products and resources which they cannot or do not produce themselves. As such, the global economy is unlikely to endure a particularly painful period.

However, the future does appear to be very different from the past, where an era of increasing globalisation and a move towards a cleaner global economy were the dominant forces. As such, it may be prudent for investors to remain nimble, adaptive and quick-to-react to the changes which are set to come. Otherwise, hanging on to old ideas and visions of what the future could have been, rather than focusing on reality and the cold hard facts, could lead to disappointing investment performance.

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