



Is a Global Trade War Inevitable?

Description

Following a small number of political events which have taken place in the last year, free trade could be under threat. The US election showed that a large proportion of people felt they had been left behind by globalisation and had failed to benefit from it. Similarly, Brexit means the idea of continually closer union between nations may no longer be a given. However, does this mean a global trade war is on the cards? Or, will free trade prevail?

Short-term outlook

In the short run, it seems likely that protectionist policies will become more popular. In the US, President Trump has stated on numerous occasions that he believes in trade barriers in order to protect US jobs. For example, he has stated there will be tariffs imposed on US companies which attempt to utilise lower labour costs by producing goods abroad for export to the US. This is likely to deter such actions in the near term, since no company will wish to have its goods or services subject to higher costs which make them uncompetitive versus peers.

Similarly, the mood among voters in the EU seems to be leaning towards greater nationalism. The UK has already decided to leave the EU, while elections in France could be dominated by the question of whether the country will remain in the EU. While the UK and any other country which leaves the EU may negotiate a free trade agreement with the EU, the stumbling block could be immigration. For example, the UK wishes to have control over its borders, while the EU wishes to have a free movement of labour. This could cause a degree of protectionism in the short run in the absence of a free trade agreement.

Long-term outlook

While in the short run it seems likely that protectionism will become increasingly prevalent, in the long run a global trade war seems unlikely. It would reverse decades of globalisation which have generally been beneficial to global prosperity. Furthermore, it does not seem to be in the long-term interests of any nation. While it may raise taxes and protect domestic jobs to an extent in the short run, it would

also mean a fall in exports. This could hurt GDP growth, employment levels and ultimately lead to dissatisfaction among voters. In such a situation, they may vote for a change of policy.

Opportunity

Clearly, a global trade war can never be ruled out. That's especially the case at the moment, where protectionism and nationalism appear to be on the rise in multiple regions of the globe. Looking ahead to the rest of 2017, such trends could become increasingly prevalent depending on the outcome of elections in France and elsewhere during the course of the year. As such, share prices could come under pressure and lead to higher levels of uncertainty.

This could prove to be a sound buying opportunity for long-term investors. High quality stocks may trade at discounts to their intrinsic values and offer wide margins of safety. Their futures may be somewhat unclear due to fears about a global trade war. However, a realisation that all countries in the world are inter-dependent and are unable to be truly self-sufficient should mean that increased protectionism does not become a global trade war. Therefore, 2017 could prove to be an excellent buying opportunity.

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