

OPINION

Pragmatic prospects for 2023 after the double whammy of Covid-19, Ukraine war

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FORECASTING is a risky endeavour. Yet, structural forces, that is, those that shape the system change less rapidly than we might expect year-on-year and provide the contours of continuity. What is difficult to foresee is the possibility of discontinuity or so-called black swan events.

The outbreak of the global Covid pandemic in 2020 and the Russian invasion of Ukraine this year constitute the two most notable disjunctures of recent times. The impact continues to generate uncertainty when thinking through the global prospects for 2023. Nonetheless, a number of trends, factors and forces can reasonably be anticipated which provide the broad parameters for the year ahead.

The most notable structural change at the global level is the disruption of globalisation itself. With few exceptions

since the fall of the Berlin Wall in 1989, globalisation has been accepted as an immutable force that propels the rapid spread of trade, investment and finance but equally forcefully perforates national borders and erodes national identities.

Yet, the globalist's mantra that countries in the same value chain do not go to war has now been exploded as a myth by the Russian-Ukraine conflict. Even prior to the Russian "special military operation" in Ukraine, the cutting of natural gas supplies and the comprehensive sanctions imposed by the West, globalisation was already under threat from the trade tariff war between the US and China. Indeed, rather than the spread of globalisation, 2023 is more likely to witness the formation and hardening of regional economic alliances and blocs. The exception to this pattern will be the expansion of the current BRICS into a broader formation.

The war in Ukraine will continue to cause energy insecurity in Europe, which, combined with post-Covid inflationary pressures, will make 2023 a particularly testing year for the European Union and the UK.

After a tumultuous year of politics and recent strike action in 2022, the UK will face deep recessionary forces well into 2023. Tackling military and strategic insecurity comes at a price, and Nato's commitment to boost defence spending to between 2-3% of the gross domestic product will mean budgetary sacrifices elsewhere, most notably in foreign aid and development spending. This, combined with looming food insecurity and erratic climate change patterns, bodes ill for many parts of Africa next year.

While Covid has largely been brought under control globally, persistent outbreaks in China will not only

have humanitarian consequences going into 2023, but the extreme lockdown measures implemented by Beijing will continue to dampen local demand, stymie manufacturing, reduce exports and exacerbate existing supply chain backlogs.

A variable that is difficult to weigh is the appetite China has for bringing Taiwan to heel, or even launching a pre-emptive strike, not least to deflect domestic attention from emergent structural economic and social challenges.

In summary, the high-inflation post-Covid global environment, the multiple consequences of the war in Ukraine and China's economic slowdown will conspire to dampen economic growth in 2023, but the outlook is not all negative.

Global inflation is being brought under control, and the pattern of progressively higher interest rates is expected to ease among G7 countries

in 2023. Energy prices are softening from their 2022 highs, and alternative sources to Russian gas and petroleum are already being contracted.

Despite significant backlogs, grain supplies are being safely exported from Ukrainian ports. It remains moot as to whether Russia has the military and political wherewithal to achieve its objectives in Ukraine, but what is clear is that the cost to the country of its special military operation has been enormous and is growing daily.

Further afield, the economy of the US has held up well against the odds, and if the Federal Reserve can achieve the economic miracle of bringing inflation under control without tipping the world's biggest economy into recession, 2023 may prove a turning point for global economic recovery.

But perhaps the greatest opportunity of 2023 is to bring the global energy and

climate change debate back on track. Understandably, given the global energy crisis, the UN's Climate Change CoP 27 held in Egypt in November of this year was a disappointing failure.

The world is way off track to achieving the objective of keeping global warming to 1.5°C above pre-industrial levels, and indeed, there is growing consensus that the commitments made in Paris in 2015 are simply unachievable within the next decade or even two. But this is no reason to abandon the pledges made for each country to meet their Nationally Determined Contributions, albeit with differentiated modalities and time frames.

It won't be easy, but 2023 holds significant potential to be a better year than its predecessor.

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