

WORLD ECONOMIC OUTLOOK

WORLD FINANCIAL MARKETS - WORLD FINANCIAL STATE - TAIWAN - CHINA - WAR IN UKRAINE

HUGHES ECONOMICS (HE) – May 2023

The current review below calculates probabilities for Financial Markets outcomes, the situation over Taiwan, the possibility of another depression, China's direction in world affairs and the war in Ukraine. Papers as below are available on this website as are various spreadsheets in **xlsx** format. Calculations below use the **WEOMay.xlsx** spreadsheet and the **LoHiProbs.xlsx** methodology.

Probability calculations below for the scenarios outlined are explained in **Probability Assessment** available at the WEB address <https://doi.org/10.17265/2328-2185/2022.05.006>. A summary article **Assessing Probabilities With Minimal Calculations** can be downloaded from this website.

WORLD FINANCIAL MARKETS (WFM)

As stated previously, three possible scenarios are proposed for the next 6 months as listed below in order of increasing likelihood:

- **TINA**: There is no alternative, and the Dow rises significantly to 40,000+.
- **SQ**: Status Quo, no major moves for the Dow in the range 30,000 – 35,000. Dow at 21/4 is 33,809.
- **BB**: Bubble bursts and Dow corrects to significantly below 30,000 or a 10%+ correction from current levels.

PROBABILITIES ON WORLD FINANCIAL MARKETS FOR THE NEXT 6 MONTHS

| Scenarios | | Pairwise Range | | Probabilities | | | | | More Likely Values | |
|-----------|----------|----------------|-------|---------------|--------------|--------------|------------|------------|--------------------|----------|
| Events | Ratios | Low | High | Low End | High End | Average | % | Previous | Average | % |
| TINA | Base = 1 | 1.00 | 1.00 | 0.016 | 0.012 | 0.014 | 2 | 2 | Base = 1 | Base = 1 |
| SQ | SQ/TINA | 10.00 | 12.00 | 0.164 | 0.141 | 0.153 | 15 | 18 | 10.93 | 7.50 |
| BB | BB/SQ | 5.00 | 6.00 | 0.820 | 0.847 | 0.833 | 83 | 80 | 5.44 | 5.53 |
| | | | | 1.000 | 1.000 | 1.000 | 100 | 100 | | |

BB is getting more likely by the month but is yet to eventuate.

WORLD FINANCIAL STATE (WFS)

Scenarios in order of increasing likelihood are as follows:

- **MB** or Mild Boom: Revamping of world infrastructure sees markets rise for 10%+ gains.
- **D** or Depression: High inflation and continued COVID pressures, policy mistakes and global financial collapse.
- **SQ** or Status Quo: Stalemate in Ukraine, inflation cools, labour markets remain healthy.
- **MR** or Mild Recession: World activity falls, with problems from inflation, Ukraine, ESG factors & more costly supply chains.

PROBABILITIES ON THE WORLD FINANCIAL STATE FOR THE NEXT 6 MONTHS

| Scenarios | | Pairwise Range | | Probabilities | | | | | More Likely Values | |
|-----------|----------|----------------|-------|---------------|--------------|--------------|------------|------------|--------------------|----------|
| Events | Ratios | Low | High | Low End | High End | Average | % | Previous | Average | % |
| MB | Base = 1 | 1.00 | 1.00 | 0.005 | 0.003 | 0.004 | 1 | 1 | Base = 1 | Base = 1 |
| D | D/MB | 10.00 | 12.00 | 0.045 | 0.030 | 0.038 | 4 | 6 | 9.50 | 4.00 |
| SQ | SQ/D | 3.00 | 4.00 | 0.136 | 0.121 | 0.128 | 12 | 14 | 3.37 | 3.00 |
| MR | MR/SQ | 6.00 | 7.00 | 0.814 | 0.846 | 0.830 | 83 | 79 | 6.48 | 6.92 |
| | | | | 1.000 | 1.000 | 1.000 | 100 | 100 | | |

The **WFS** has been rocked by recent upheavals in the world banking system. Just how far repercussions reverberate remains to be seen. That world monetary policy has just been further complicated is in no doubt. The chances of a recession increase again this month. Using 5 decimal probabilities, the D/MB ratio is 10.72.

TAIWAN

The scenarios for developments involving Taiwan from least to most likely are as follows:

- **TINO**: Taiwan invasion by mainland China with no aid from any country to help repel the invaders.
- **TIUS**: Taiwan invasion by mainland China and the US assists Taiwan in its defense, possibly with other allies.
- **NOTI**: No invasion of Taiwan but Chinese harassment of Taiwan continues.

Probabilities for the scenarios are calculated in the table following.

PROBABILITIES ON TAIWAN DEVELOPMENTS OVER THE NEAR FUTURE (No changes this month)

| Scenarios | | Pairwise Range | | Probabilities | | | | | More Likely Values | |
|-----------|-----------|----------------|------|---------------|--------------|--------------|------------|------------|--------------------|----------|
| Events | Ratios | Low | High | Low End | High End | Average | % | Previous | Average | % |
| TINO | Base = 1 | 1.00 | 1.00 | 0.038 | 0.020 | 0.029 | 3 | 5 | Base = 1 | Base = 1 |
| TIUS | TIUS/TINO | 5.00 | 7.00 | 0.192 | 0.140 | 0.166 | 17 | 21 | 5.72 | 5.67 |
| NOTI | NOTI/TIUS | 4.00 | 6.00 | 0.769 | 0.840 | 0.805 | 80 | 74 | 4.85 | 4.71 |
| | | | | 0.999 | 1.000 | 1.000 | 100 | 100 | | |

CHINA’S FUTURE DIRECTION

Outcomes in increasing order of likelihood are as follows:

- RDA: Regionally decentralized authoritarianism – initially orchestrated by Deng Xiaoping leading to China’s rapid rise.
- RD? : Some hybrid model incorporating aspects of RDA and avoiding the worst excesses of RDT which follows.
- RDT: Regionally decentralized totalitarianism – Soviet-style economics with no freedom in regional decision-making.

Under RDA, regions were allowed to make their own economic decisions and this competition between them advanced the Chinese economy significantly, but with some Western market characteristics. It would seem that the CPC will tolerate economic underperformance with RDT for some years before deciding a change in tack is required. Current CPC rhetoric suggests no accommodation of interests other than Chinese will be entertained under Chinese hegemony. The West must maintain world leadership in key areas in the future and help persuade China that cooperation is better than confrontation.

PROBABILITIES ON POSSIBLE CHINESE DEVELOPMENTS

| Scenarios | | Pairwise Range | | Probabilities | | | | | More Likely Values | |
|-----------|----------|----------------|-------|---------------|--------------|--------------|------------|------------|--------------------|----------|
| Events | Ratios | Low | High | Low End | High End | Average | % | Previous | Average | % |
| RDA | Base = 1 | 1.00 | 1.00 | 0.024 | 0.018 | 0.021 | 2 | 3 | Base = 1 | Base = 1 |
| RD? | RD?/RDA | 4.00 | 5.00 | 0.098 | 0.089 | 0.093 | 9 | 10 | 4.43 | 4.50 |
| RDT | RDT/RD? | 9.00 | 10.00 | 0.878 | 0.893 | 0.885 | 89 | 87 | 9.52 | 9.89 |
| | | | | 1.000 | 1.000 | 0.999 | 100 | 100 | | |

The CPC of China cannot for much longer allow the world to entertain the notion that Taiwan’s system (one country, two systems) may be better than that of the mainland. That is, the CPC’s belief is that socialism with Chinese characteristics is to be preferred over capitalism with Chinese characteristics. But Taiwan’s continuing success is incontrovertible proof that this is not necessarily so. GDP per capita in US dollars in 2022 was \$32,811 for Taiwan and \$12,814 for China. Per annum growth rates in GDP/capita since 1959/60 have been 9.05% for Taiwan and 8.33% for China – close but mainland China still comes second. Hong Kong’s GDP per capita in 2021 was \$49,800. Just how much reshoring away from China, demographic trends etc., affect these values remains uncertain, but the numbers to date favour Taiwan.

THE WAR IN UKRAINE

The scenarios following are in line with *The Economist’s* appraisals in a recent publication. In order of likelihood these are:

- CRT: A ceasefire is negotiated but on terms dictated by Russia.
- CUT: As for CRT but with Ukraine dictating the terms.
- STM: A stalemate cements itself with battlelines little changed from those currently operational.

PROBABILITIES ON POSSIBLE OUTCOMES TO THE WAR IN UKRAINE (No changes this month)

| Scenarios | | Pairwise Range | | Probabilities | | | | | More Likely Values | |
|-----------|----------|----------------|------|---------------|--------------|--------------|------------|------------|--------------------|----------|
| Events | Ratios | Low | High | Low End | High End | Average | % | Previous | Average | % |
| CRT | Base = 1 | 1.00 | 1.00 | 0.063 | 0.040 | 0.051 | 5 | 7 | Base = 1 | Base = 1 |
| CUT | CUT/CRT | 3.00 | 4.00 | 0.188 | 0.160 | 0.174 | 17 | 17 | 3.41 | 3.40 |
| STM | STM/CUT | 4.00 | 5.00 | 0.750 | 0.800 | 0.775 | 78 | 76 | 4.45 | 4.59 |
| | | | | 1.001 | 1.000 | 1.000 | 100 | 100 | | |

The military stalemate is firmly entrenched currently. Finland is now a NATO country, and Sweden is expected to join as well. Russia looks to become increasingly isolated if sanctions become more effective.