

WORLD ECONOMIC OUTLOOK – THE BIG PICTURE

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Following Nassim Taleb in *Fooled by Randomness* (2nd Edition 2005) an attempt at “probabilistic thinking” is undertaken in this essay using the methodology on this website in *Structuring Probability Assessments*. The following analysis was prompted by a reading of Arvind Subramanian’s *Eclipse: Living in the Shadow of China’s Economic Dominance* (2011). Subramanian updated his own thinking in a **Project Syndicate** July 2020 article, *China Has Blown Its Historic Opportunity*. The title says it all for Subramanian. But stepping back a pace, 3 possible scenarios or states of the world (SOW) are put forward as possible outcomes over the next decades:

1. China replaces the US as the world’s leading power as in the *Eclipse* narrative. This means Chinese dominance in the South China Sea; Taiwan is either part of China (like Hong Kong) or at least subservient to China’s wishes and India is unwilling to challenge China militarily apart from border skirmishes (scenario or SOW China below).
2. A second Cold War eventuates with the US and China vying for world leadership. There is no outright winner, but Europe and the rest of the world become the game board over the next decades (SOW Cold War 2).
3. The status quo rules with Biden re-establishing US hegemony after the Trump endeavours. This means institutions like the WTO, IMF etc. arbitrate rulings that are adhered to by most countries and notably China which may itself be part of the governance of such institutions (Status Quo).

Subramanian’s July article would appear to favour SOW 3 above, or at least not 1. To project relative likelihoods of the 3 scenarios, we first identify major sectors where dominance or leadership will prove vital in the coming decades:

1. Computing generally, cloud, AI applications and robotics etc.
2. Telecommunications as in 5G.
3. EVs displacing the internal combustion engine.
4. Social media, translation services, ZOOM and similar.
5. Pharmaceuticals and health, biotechnology.
6. Energy, oil and gas but especially renewables, storage and nuclear.
7. Aerospace with satellites etc. but also passenger and military aircraft.
8. Financial, insurance and blockchain services, and especially digital currencies.
9. Tourism, entertainment, movies, streaming services.

Currently, sectors 3 and 6 could end up with China leading the way. Sectors 7 and 8 are also possible for Chinese leadership especially if the renminbi achieves reserve currency status. Currently, however, it is hard to see many world leading companies in the US, UK, Europe, Japan and elsewhere in the above sectors being displaced by a Chinese rival in the decades ahead. Putting numbers on the above, the probabilities for each scenario or SOW are detailed below.

LIKELIHOOD FOR EACH SCENARIO OR STATE OF THE WORLD BASED ON ABOVE FACTORS

Scenario or SOW	Pairwise Judgment	Compound Likelihood	Scenario Likelihood	Percentage Likelihood
China	1.00	1.000	$1.000/10.000 = 0.10$	10
Cold War 2	3.00	$1.0 \times 3.0 = 3.000$	$3.000/10.000 = 0.30$	30
Status Quo	2.00	$3.0 \times 2.0 = 6.000$	$6.000/10.000 = 0.60$	60
TOTALS		10.000	1.00	100

Subramanian’s July analysis is found to be compelling. And Chinese belligerence (against Australia for example) continues to support the China option’s lowest likelihood. Cold War 2 is seen to be 3 times more likely. Biden’s moderation makes the Status Quo twice as likely as another Cold War scenario despite the Trump actions in recent years.