

THE WORLD OUTLOOK FROM HUGHES ECONOMICS

Warren R Hughes – 10th August 2022

The world seems to be managing the difficulties it faces sufficiently well. Currently, inflation is a world-wide problem, but Central Banks generally now recognize it must be dealt with using appropriate policies. Possibly a mild recession is on the cards, but a depression seems very unlikely. Ukraine is holding its own against Russia, but only a removal of Putin will make Russia more accommodating, and this does not appear likely. China does not seem it will risk a Taiwan crisis, apart from harassment of air and sea lanes around the island. This means supply chains to and from Asia generally should not face disruption and this will be positive for the world economy. Logistic developments to replace Russian energy supply will also keep the rest of the world gainfully employed with new investment in shipping and infrastructure. A new Cold War pitting China, Russia, North Korea, and some Middle Eastern countries against the West led by the US now looks a possibility, especially if the Ukraine war drags on. But this too will revitalize Western economies with a new focus on future requirements in the resulting world order. Inclusiveness of previous adversaries would be a dead letter. Of course, in the future, we will face similar tensions as in the old Cold War, but we have been through that once already. The other side will face severe problems keeping their people happy in Cold War 2. A North Korean lifestyle is not appealing to the rest of the world. A hot war would be catastrophic for the world and is not inconceivable.

CHINA

China faces some tough choices. Russia seems a natural partner politically but is a dead end economically. Already a lot of previously thought indispensable Chinese manufacturing has moved to Vietnam and similar countries. This activity may never return to China unless there is a U-turn in Chinese thinking. In Cold War 2, the question is will China align with Russia (obsessed with “Empire”) and the Middle East (obsessed with religion) or a more forward-looking West? If only reluctantly in the latter case but an end to Cold War 2 should that happen. Militarily, the West with Western Europe (post Ukraine), UK, US, Canada, Japan, most of Asia and South-East Asia together with Australasia (e.g., AUKUS) is more than a match for any adversaries over the next two-plus decades. A China-centric monolith (even including Taiwan and assuming it overcomes its demographic, debt, housing and Covid problems) would be a challenge to the West but not an insurmountable challenge. No other challenge to Western hegemony is on the horizon, except perhaps a USA disintegrating politically.