

WORLD THOUGHTS

HUGHES ECONOMICS (HE) – APRIL 2022

A major realignment of the world order looks possible over the next year, and world financial markets may have to adjust. Previously, **HE** focused on the world contest between China and the USA in the race for world hegemony with the latter a 64% chance to maintain its current ascendancy. The Ukrainian invasion has upended this outlook. A China/Russia alliance (however tentative) engendered by the invasion must now be factored into a Cold War 2 scenario. Other powers like Turkey, North Korea, Saudi Arabia, Syria, Iran, and others have their own agendas with abundant opportunities for Cold War-like maneuverings. Possibly, Germany may be about to reverse a history of Merkle wishful thinking which helped promote the current disorder. And this will be required if Trump (or a Trump acolyte) returns to leadership in the US. The West faces troubling times unless there is a renaissance in German strategic thinking.

Russians are about to experience what they enforced on Eastern Europe following World War II. Fortunately for the West, China will not be able to utilize the same power that Russia enjoyed as a victor following WW II operating in a devastated world. Putin has demonstrated to all the poverty of communist thinking. Revenge on the previously governing classes is satisfying but not enough as the French revolution amply evidenced. A working vision for the future is required. As proven by Singapore, even small countries can thrive if properly governed, while under US hegemony. If the Chinese (or more accurately the CPC) were really smart, Hong Kong today would be a (if not the) coming world center of finance and the Chinese renminbi set to challenge the US dollar as a world currency. Clearly this will not happen now. Centers like Singapore have filled the gap. Communism, even with “common prosperity,” is no longer the future especially if military baggage is part of that, no matter how attractive its ideology (in theory) may be.

The idea of “1 country 3 systems” as in China/Hong Kong/Taiwan (1/3) was a brilliant strategy and a genuine world-competitor to the “2 countries 1 system” of say USA/Canada. But no longer. The Hong Kong crackdown and the CPC’s harassment of Taiwan are not compatible with the 1/3 future that China advanced so brilliantly.

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