

Economic Principles for A New World Order of Multipolarity and Multilateralism

IMF RES Seminar

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China's Economic Ascent

Economics:

1. Income growth and poverty reduction
2. Globalization

More generally:

1. World order tightened
2. Political convergence

Resulting trade architecture:

Single, multilateral global order vs fractured and decoupled

Multipolarity:

Distribution of power
(income, capacity)
across nations

Multilateralism:

- (1) Level playing field;
rules-based order;
collaboration in unanimity

- (2) Indivisibility; diffuse
reciprocity; commitment to
peaceful dispute
resolution.

Economic interdependence no longer binds world order

1. “Geopolitics and Security vs Economics”
2. Lived experience, not Pareto improvement. Price, not quantity
3. “China Shock” different from Cold War, but wrong direction
4. Great Power hegemony decline but then so too incentive to provide global public goods (multipolarity, benefits increasingly shared with others)

Proposed principles

1. Build mechanisms for **inadvertent cooperation**.
2. Divide and conquer; separate out problem domains:
 - (a) where inadvertent cooperation is possible, perhaps with a tweak;
 - (b) where it is zero-sum;
 - (c) where epic fail (Prisoners Dilemma) occurs and resulting gridlock could use nudges or other Third Nation actions.
3. Reduced ambition: plurilateralism, minilateralism but transparent and inclusive, and open to full-blown multilateralism

World Order:

A community of nations; together with a shared understanding of rules, norms, and conventions that guide the behavior of those nations.

Global Economic Order:

That subset of world order that concerns the economic behavior of nations in the order.



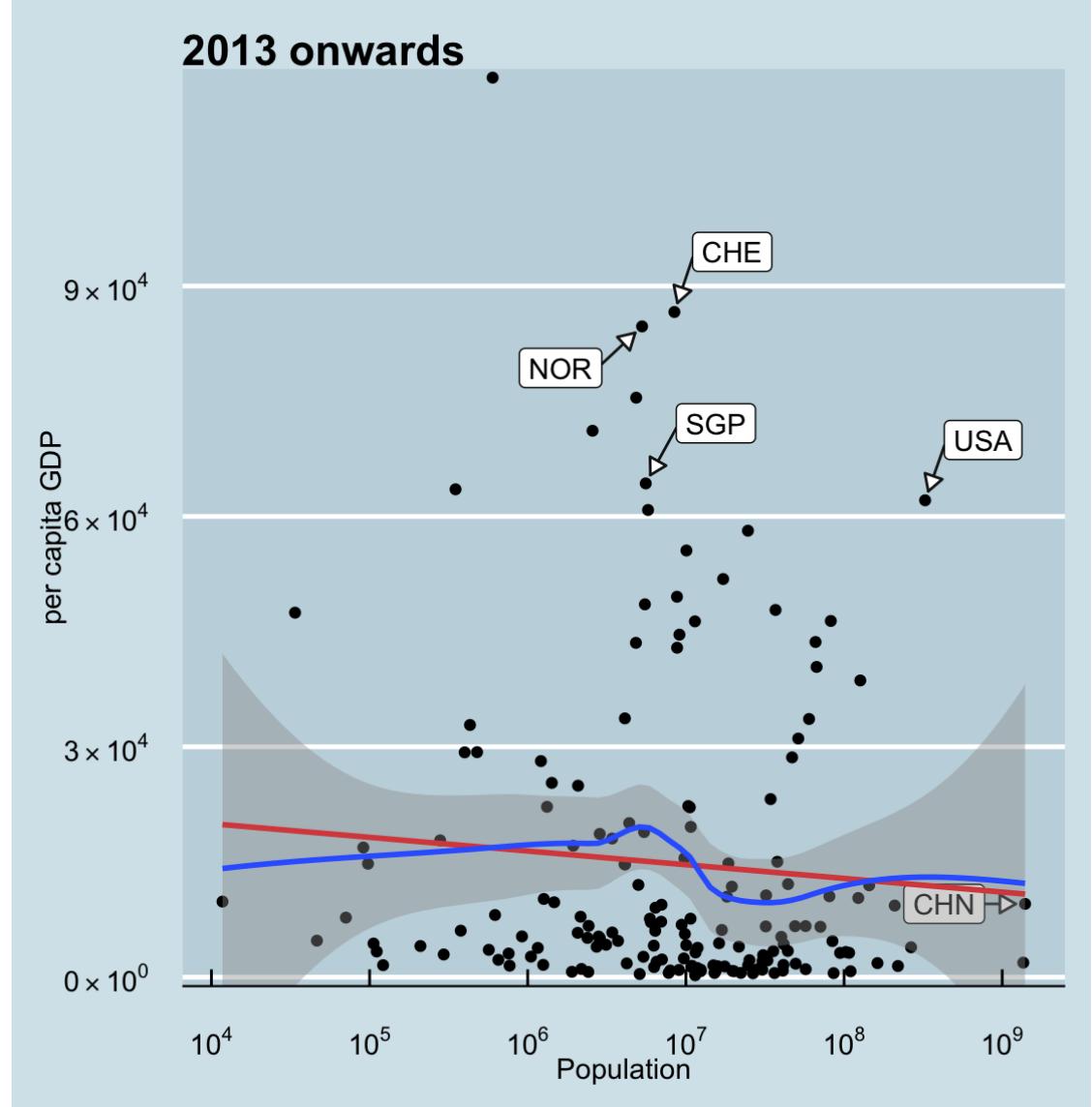
Or maybe not. A long way down the list of US-Soviet contentions is how the other side is “ taking our jobs, hollowing out our industry, stealing our intellectual assets.”

But that last is exactly the “China Shock”:

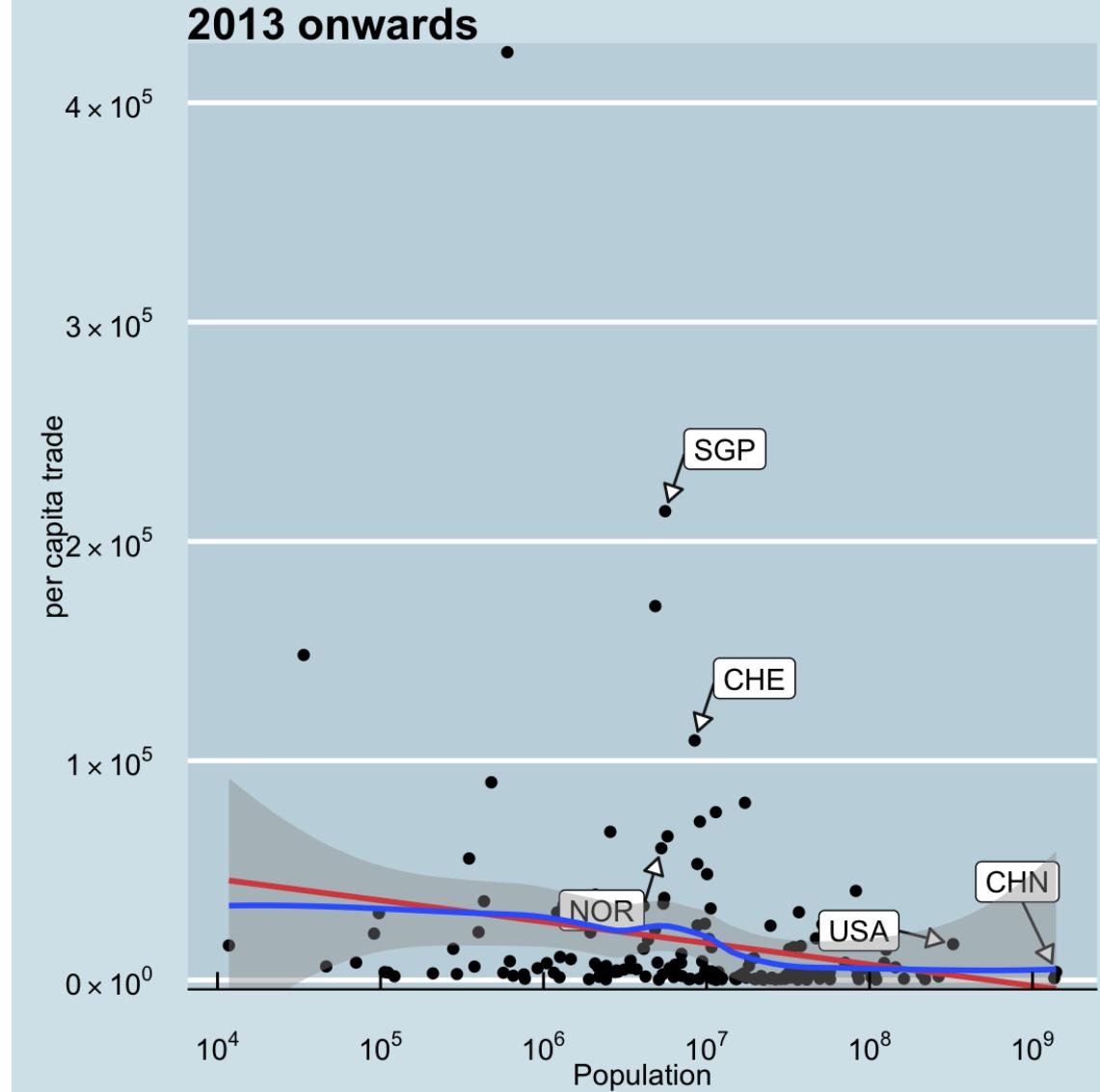
1. 2012 on: “China is a threat to America’s prosperity”:
 - 1.2mn 1999-2011 manufacturing job loss due to competition with China.
 - But context US 2016 on average 1.1mn jobs lost a month; and 2011-2015, US imports from China rose 21% but manufacturing jobs also rose by 0.74mn
2. 2000: “China cannot grow into an industrial giant in the 21st century. Its population is too large and its gross domestic product is too small.”
 - “largely a land of rule-bound rote learners”
 - “Advances in information technology will only be made in free societies by free thinkers, not under an authoritarian regime hiding behind a firewall”

		Player 2			
		Trade	Autarky	Player 2	
		(+100, +100)	(+95, +90)	Silent	Cheap Talk
Trade	Autarky	(+90, +95)	(-100, -100)	Silent	(0, 0)
	Autarky	(+90, +95)	(-100, -100)	Cheap Talk	(+1, -1)
Positive sum		Player 2		Zero sum	
		Cooperate	Contain	Mechanisms:	
Cooperate		(+100, +100)	(-101, +101)	Epic fail	
Contain		(+101, -101)	(-100, -100)		

1. “Competition instead of collaboration”?
2. “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.” **Inadvertent cooperation.**
3. Competition leading to tragic, epic loss outcomes.
4. The ability and commitment of small states: Third Nation agency



Small states draw on global openness to benefit their economies; Great Powers do so only when it advances their national security.



Great Power protectionism

Alexander Hamilton: trade is “impracticable”

Abraham Lincoln 1847: “Give us a protective tariff, and we will have the greatest nation on earth.”

Smoot-Hawley 1930

US Republican Party platform 1896: “We renew and emphasize our allegiance to the policy of protection, as the bulwark of American industrial independence and the foundation of American development and prosperity.”

Following the reaction to the “buy Japan” policy in the San Francisco Peace Treaty, in 1956 Eisenhower administration: “failure on the part of the US, the world's greatest trading nation, to join in setting up this organization would cause great dismay and disappointment throughout the free world at a time when the Soviet Union is stepping up its foreign economic efforts.”

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