

A New Global Economic Governance

5U Conference 2023: New Principles of International Relations

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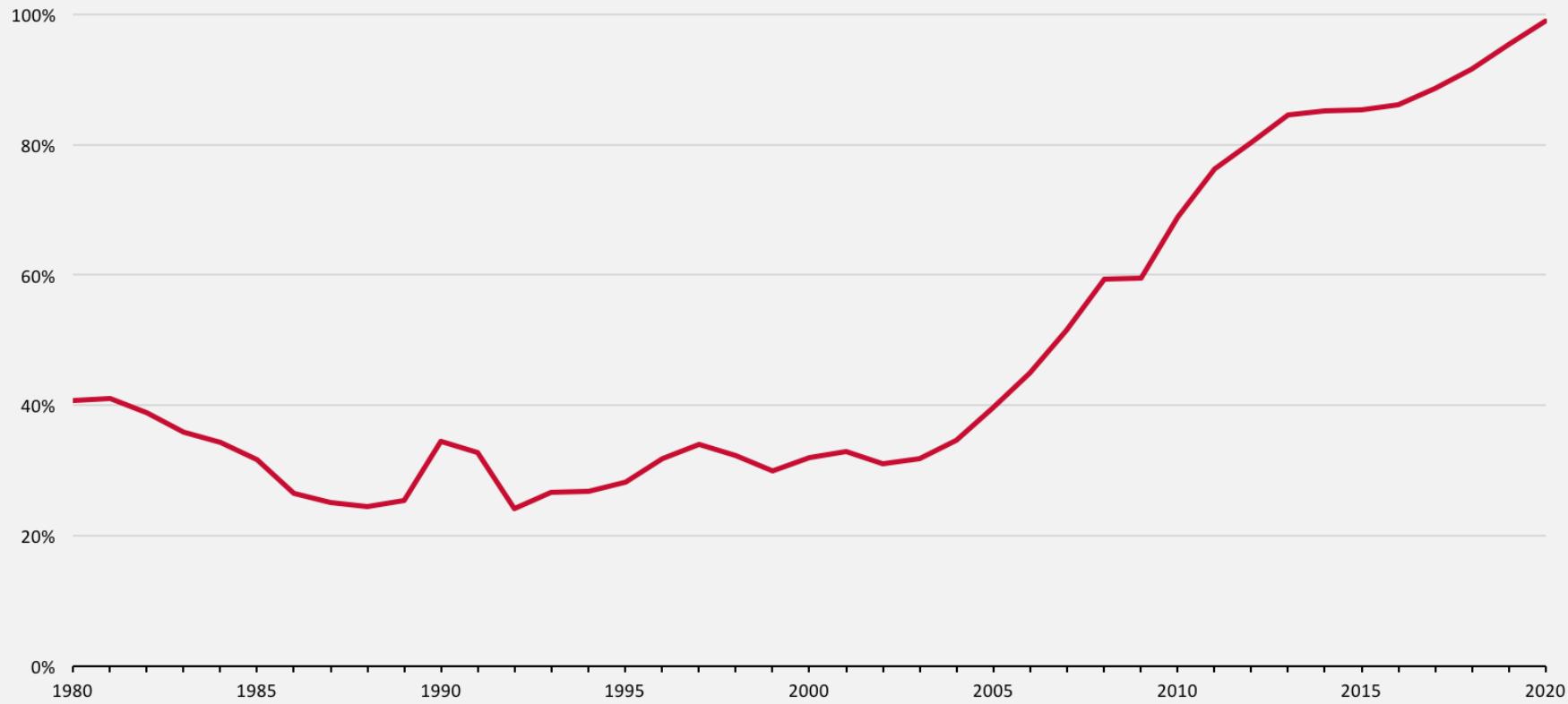
A hypothesis; the facts; and proposed principles

1. Small states and simple states draw on global openness to benefit their economies; Great Powers do so only when it advances their national security.
2. It's not about de-globalization or de-risking or decoupling. It's de-China.
3. Principles for global economic governance

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

The Globalization Lift

Emerging countries' combined GDP as a share of G7 GDP



Note: GDP data are measured in constant USD

Sources: the authors' own calculations, IMF *World Economic Outlook* (Oct 2015, updated)

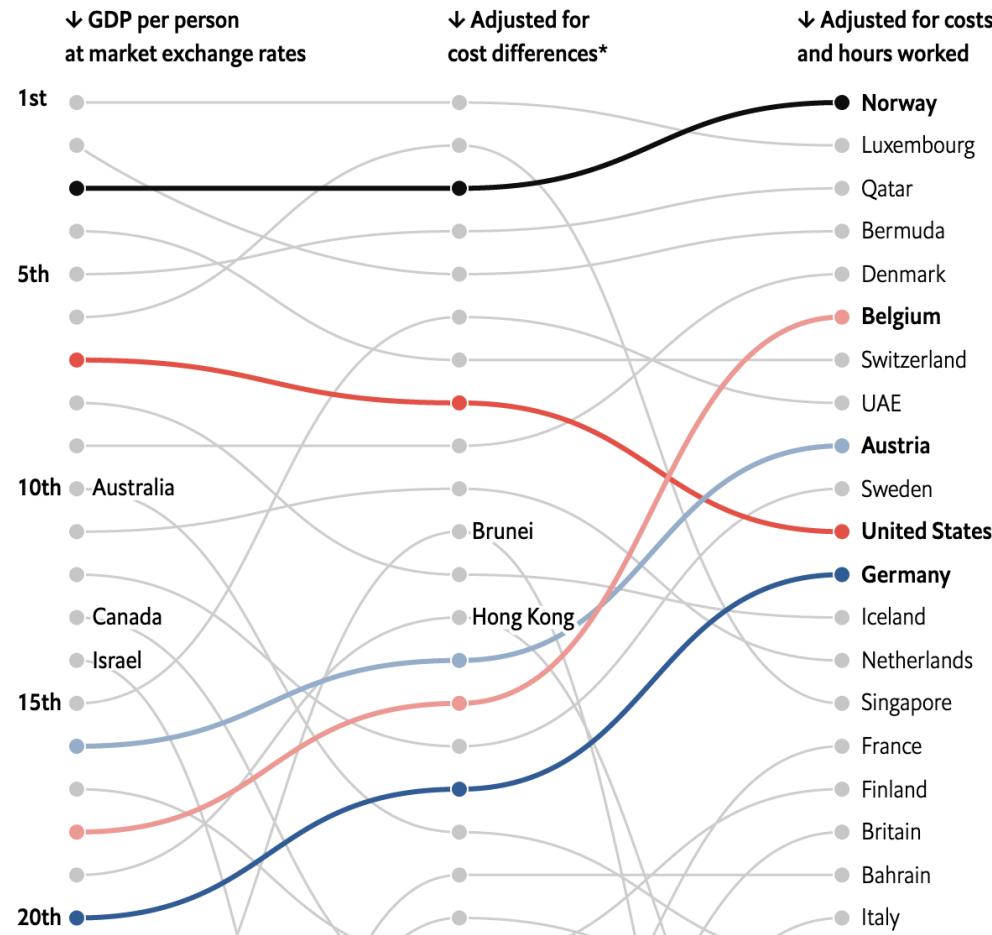
Quah and Mahbubani (2016)

Top countries ranked using three GDP measures

2022, \$, current prices

Population, Jul 2021

1. Luxembourg	0.64
2. Bermuda	0.06
3. Norway	5.40
4. Switzerland	8.69
5. Qatar	2.69
6. Singapore	5.94
7. US	337
8. Iceland	0.37
9. Denmark	5.85
10. Australia	25.92
11. The Netherlands	17.50
12. Sweden	10.47



*At purchasing-power parity

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.”

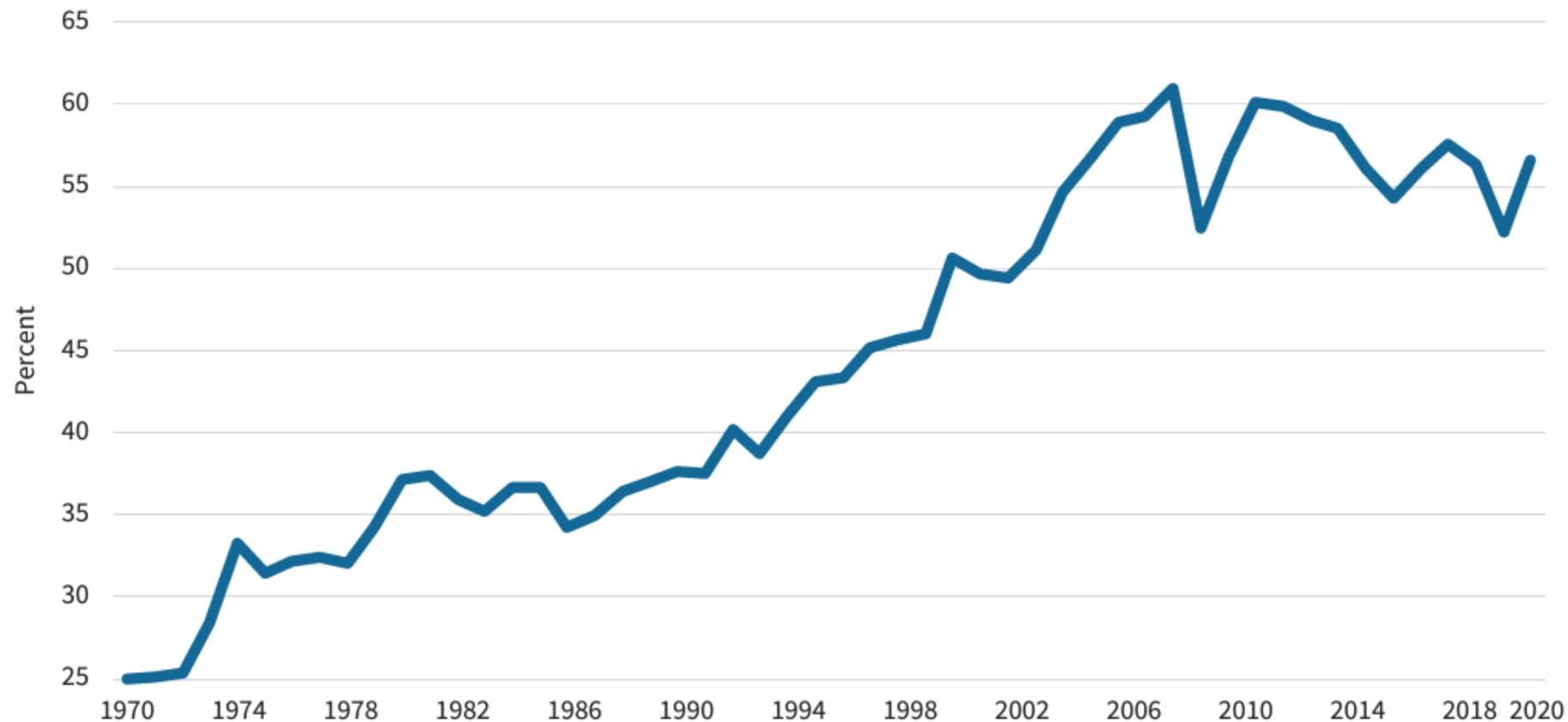
Following the reaction to the “buy Japan” policy in the San Francisco Peace Treaty, in 1956 Eisenhower administration: “failure on the part of the US, the world's greatest trading nation, to join in setting up this organization would cause great dismay and disappointment throughout the free world at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

2. It's not about de-globalization or de-risking or decoupling. It's de-China.

Globalisation, rules-based order, ... and then de-coupling, de-risking, and the greatest foreign policy challenge of our time

1. Power transition (Thucydides; Realism tragedy)
2. Security dilemma (vicious cycle)
3. Nationalism. Domestic redirection. Personalities
4. Rules of the game ... that work for everyone
5. Pandemic-instigated resilience. Not wrong
6. The heat of economic competition. Technologies of the future

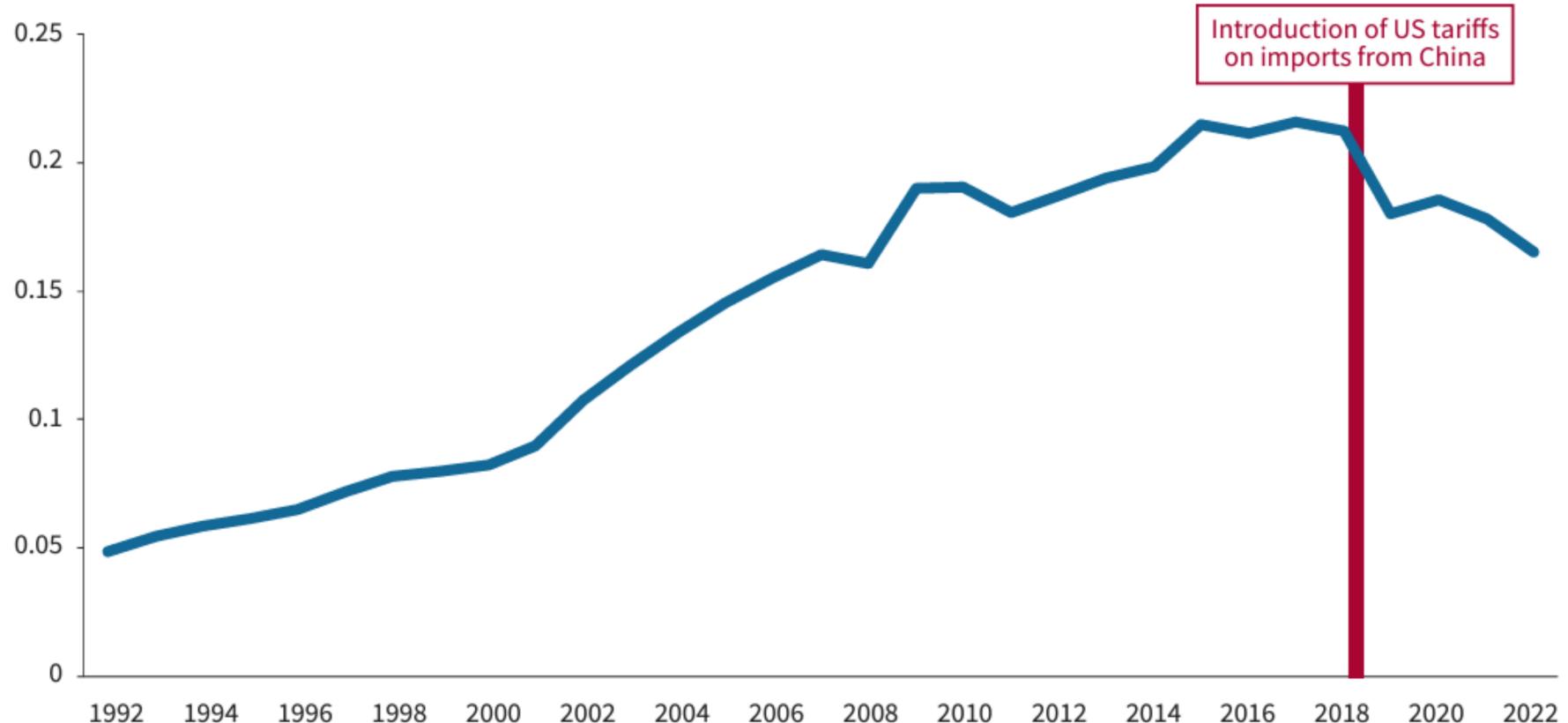
Global Trade Integration: World Exports plus Imports as a Percentage of World GDP



Deglobalization, de-risking, de-China

1. Deglobalization: The big disruptor was 2008 GFC...
2. But de-risking and decoupling, post-Trump, has been all about China:

China's Share of US Imports



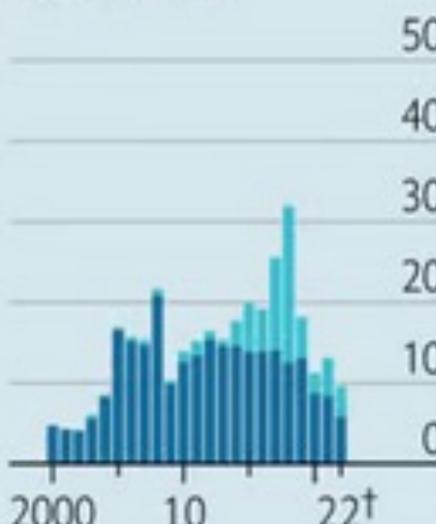
Source: Freund, Mattoo, Mulabdic, Ruta. 2023. VOX. "US-China decoupling: Reheoric and reality"

Insecurities and investments

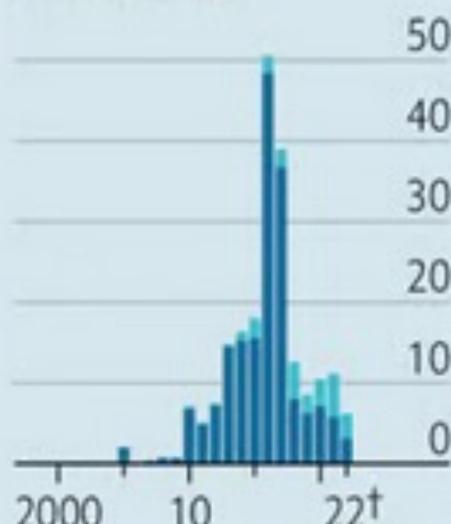
United States and China, \$bn

■ Foreign direct investment* ■ Venture capital*

US to China



China to US



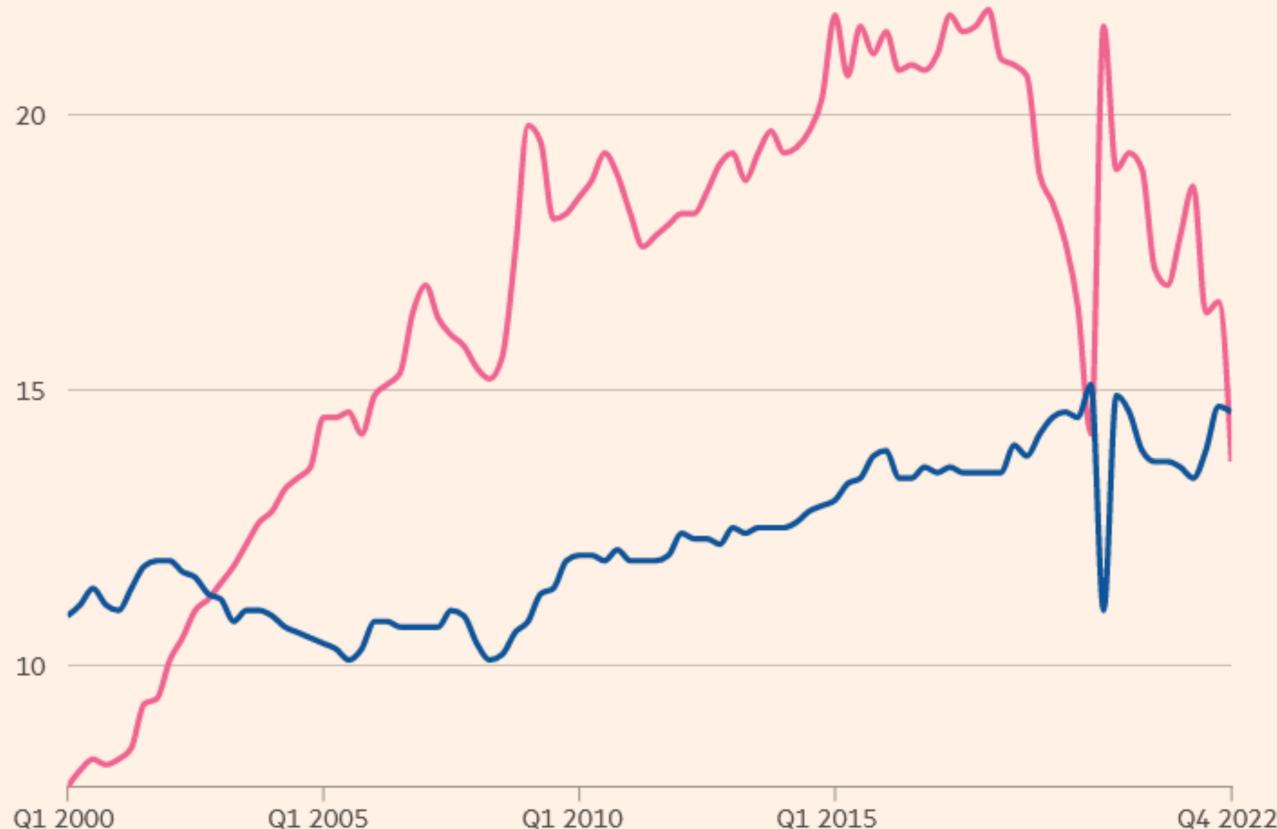
*Only including deals worth over \$1m †Estimate

Source: Rhodium Group

US imported more goods from Mexico than China in Q4 2022

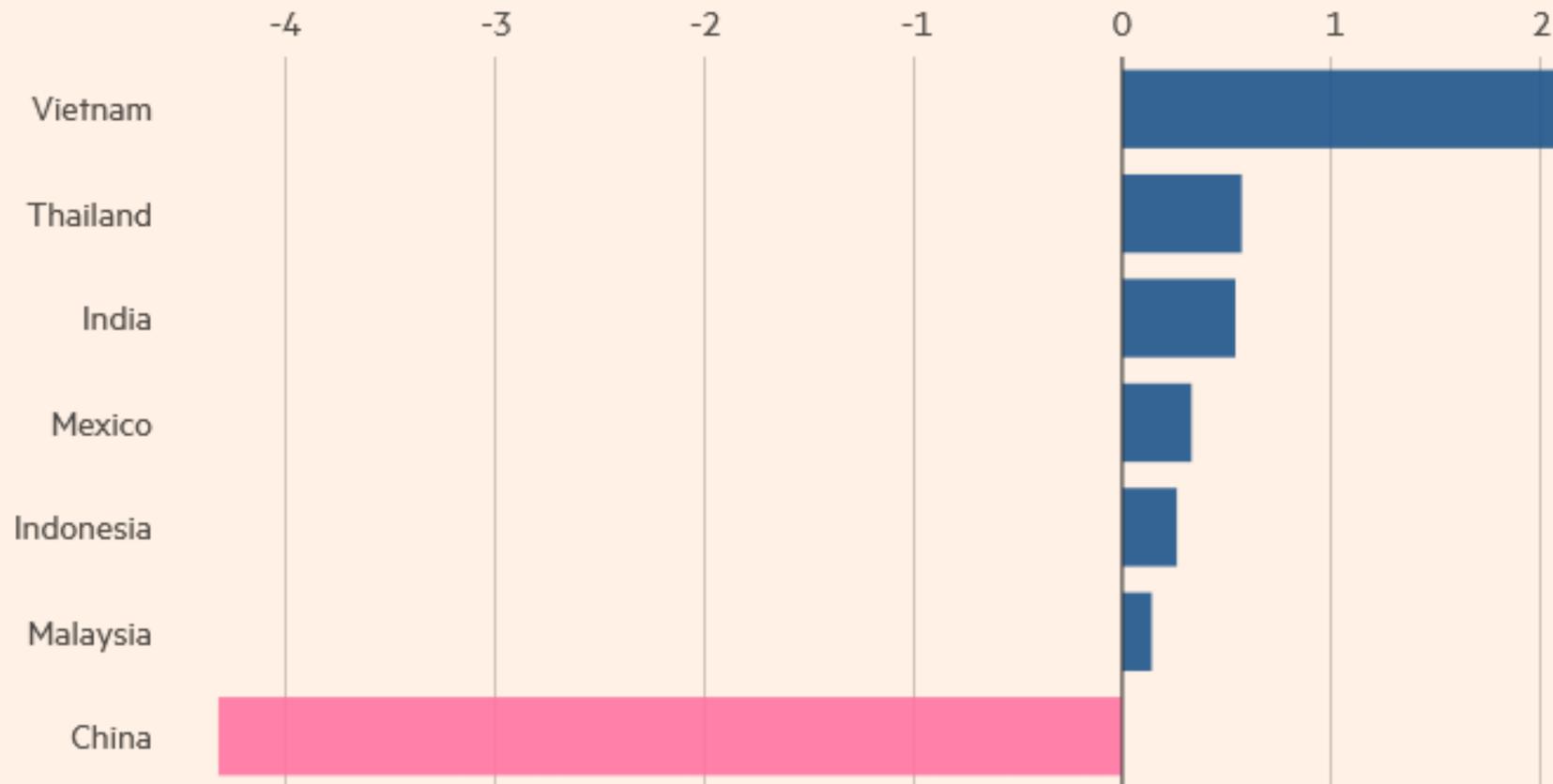
Share of US goods imports (%)

China Mexico



South-east Asia benefits the most from reshoring away from China

Change in share of US imports between Jan 2018 and Oct 2022 (percentage point)



“China is evil”

“Authoritarian and Leninist, state and party controlling personal lives. Disdain for human rights, free speech, democracy, rule of law. Set against our liberal values and basic human decencies”

“a revisionist power that will undermine the international system and reshape it in their authoritarian image”

“using predatory economics to intimidate and to exercise veto power over the economic and security decisions of others”

“China is evil”

“Authoritarian and Leninist, state and party controlling personal lives. Disdain for human rights, free speech, democracy, rule of law. Set against our liberal values and basic human decencies”

“using predatory economics to intimidate and to exercise veto power over the economic and security decisions of others”

“a revisionist power that will undermine the international system and reshape it in their authoritarian image”

“unbalances the global economy, destroys our jobs, hollows out our industry, steals our intellectual property”

Complacency in the Plus Ones

1. Savings and investment
2. Trade and market access
3. Elements of industrial policy
4. Technology transfer

They too will soon be charged with “Plus One shock”: unbalancing the global economy, destroying jobs, hollowing out industry, stealing IP

3. Principles for global economic governance

		Player 2		Player 2	
		Collaborate	Contain	Collaborate	Contain
		(+10, +10)	(+5, -4)	(+5, -5)	(-10, +10)
Collaborate	Contain	(-4, +5)	(+1, +1)	(+10, -10)	(-5, +5)
Positive sum		Player 2		Zero sum	

		Collaborate	Contain
		(+5, +5)	(-10, +10)
		(+10, -10)	(-5, -5)
Collaborate	Contain		
Contain	Collaborate		

Mechanisms

Prisoner's
Dilemma

A hypothesis; the facts; and proposed principles

1. Small states and simple states draw on global openness to benefit their economies; Great Powers do so only when it advances their national security.
 - (a) The world's richest states are all small states, with one exception. For them, "stronger together".
 - (b) The halcyon Friedman moment vs US protectionism
2. It's not about de-globalization or de-risking or decoupling. It's de-China.
3. Principles for global economic governance
 - (a) The global economy is no longer about public goods; it used to be.
 - (b) But Great Power gridlock is a challenge in its Prisoner's Dilemma characteristics.
 - (c) Global cooperation is only an option when interests align. Instead, we need either inadvertent cooperation or Third Nation agency nudging.

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