

# Asia's New Growth Trajectory: Navigating an International Economic Landscape Fractured by Great Power Rivalry

International Economic Association World Congress: Medellin, Colombia

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2023 Dec 12

The three-part title:  
Two empirical descriptions and  
one part conceptual analysis

1. Growth and Convergence, with Identity
2. The International Economic Landscape,  
Fractured
3. Navigation

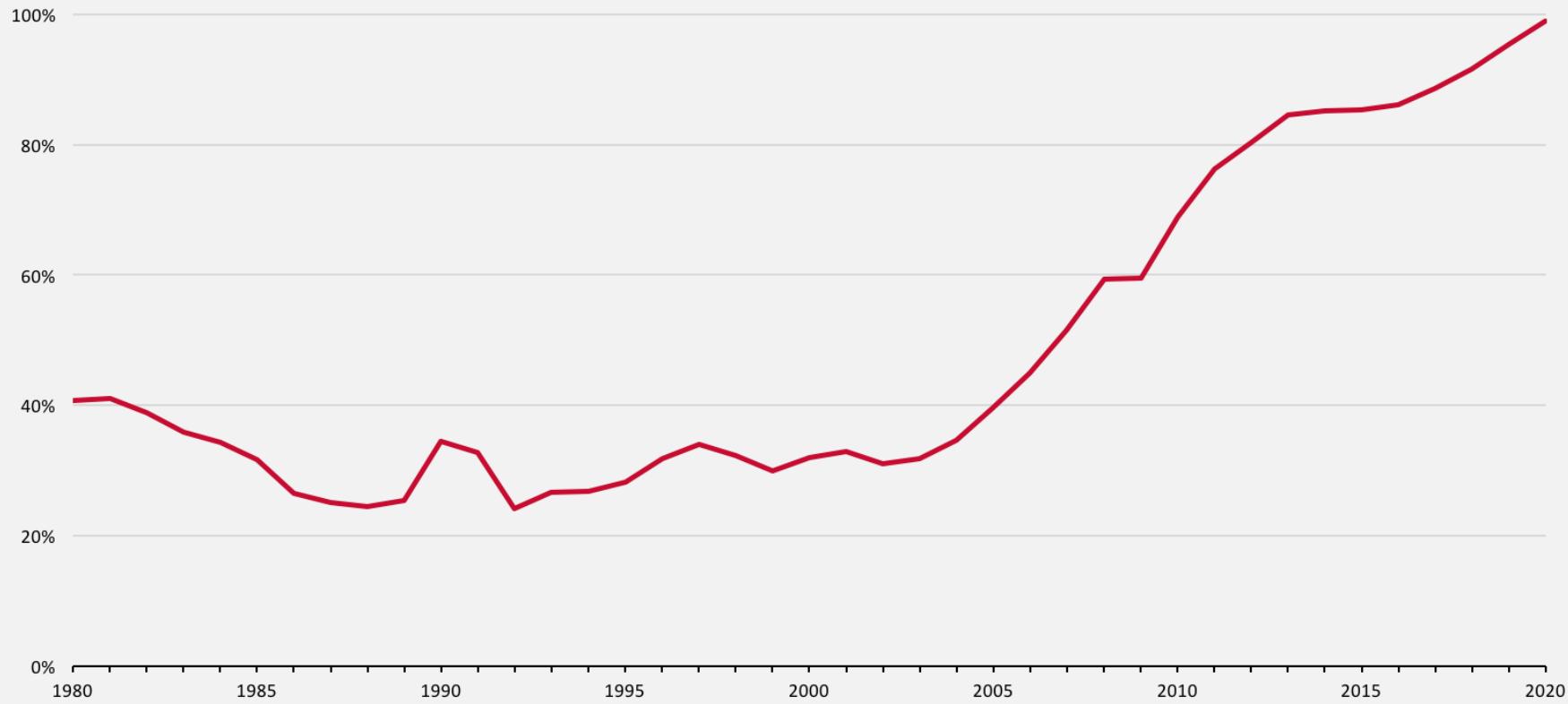
# 1 – Growth and Convergence, with Identity

# Enduring Asia development themes, with some universalism

1. High savings and investment
2. Trade and market access
3. Elements of industrial policy
4. Technology transfer
5. Not letting the perfect be the enemy of the good.

# The Globalization Lift

Emerging countries' combined GDP as a share of G7 GDP

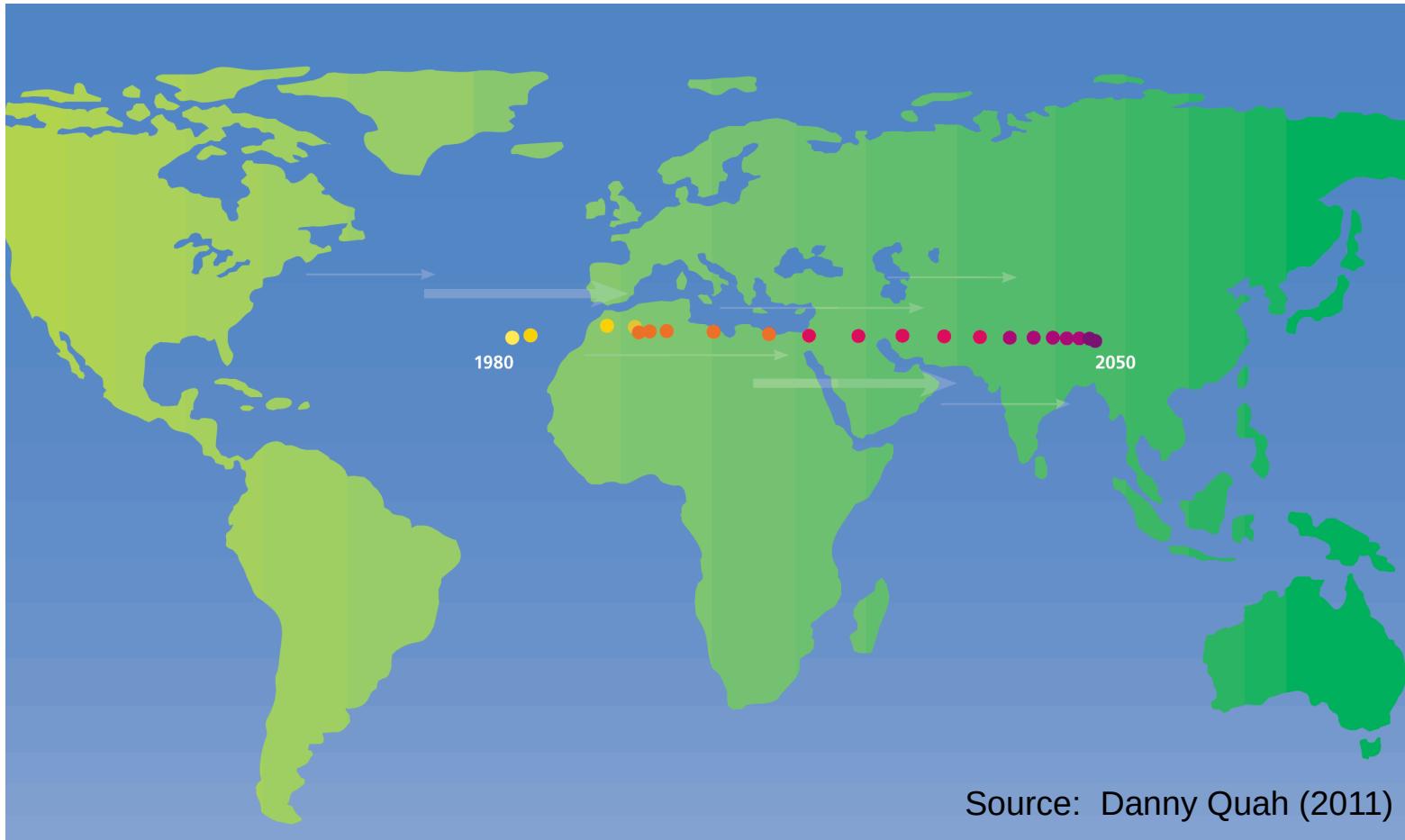


Note: GDP data are measured in constant USD

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

Quah and Mahbubani (2016)

# The world's economic centre of gravity: 1980-2050



A photograph of a globe centered on South America. The continent is mostly blue, representing oceans. Overlaid on the globe is a dense cluster of small, colorful dots (purple, pink, yellow) concentrated in a small area of South America, specifically around Brazil and Argentina. This visual metaphor represents the concept of a "democracy of the Earth".

If the world were  
a democracy, this  
is where it would  
make decisions  
of global  
significance

**The Smallest Circle  
on Earth With More  
People Inside Than  
Out**

# Economies and convergence

1. Small states make up most of the world
2. Yet they are the most successful of economies
3. ... increasing returns operates inexplicably
4. “Stronger together”. Trade via comparative advantage or complex emergence or ...

# Lessons, 1: Asia, growth and convergence with identity

1. Savings and Investment. Trade and market access (Solow; Lewis; Harris, Todaro; learning by doing)
2. Elements of industrial policy (Juhasz, Lane, Rodrik)
3. Technology transfer (Romer, Grossman-Helpman)
4. Not letting the perfect be the enemy of the good.

**Powerful convergence in the large**

# 2 – The International Economic Landscape, Fractured

# Globalisation

“The increasing ease with which everything is available to us, wherever we are on the planet”



The world of the 20th century, if it is to come to life in any viability of health and vigor, must be to a significant degree an American century.

(Henry R. Luce)

# A Unipolar World Order



“American global power—military, economic, technological, cultural, political—is one of the great realities of our age. Never before has one country been so powerful or unrivaled. The United States emerged from the Cold War as the world’s only superpower and grew faster than Europe and Japan in the decade that followed. American bases and naval forces encircle the globe. ... For the first time in the modern age, the world’s most powerful state can operate on the global stage without the fear of counterbalancing competitors. The world has entered the age of American unipolarity.”

(Ikenberry, 2005).

# 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

# “China is evil”

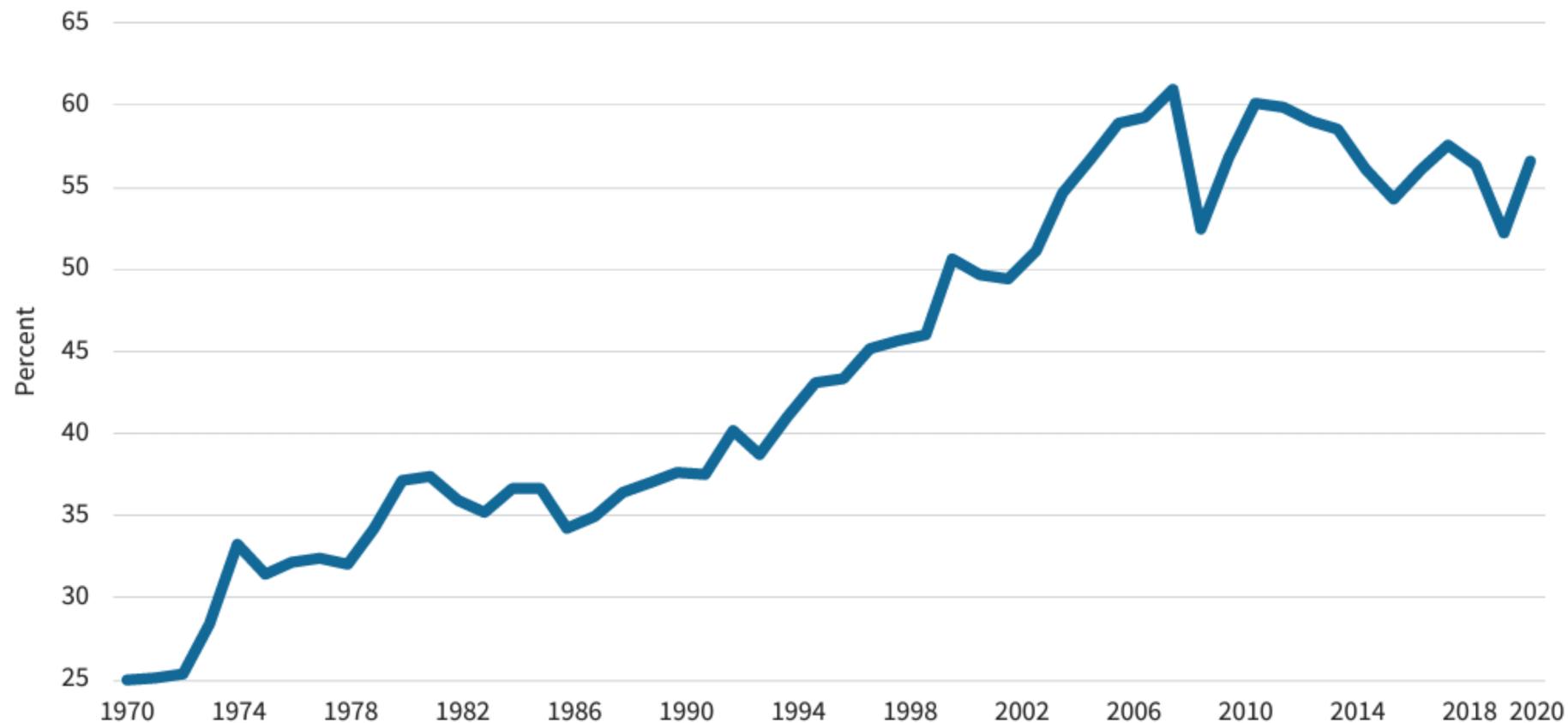
“Authoritarian and Leninist, state and party controlling personal lives. Disdain for human rights, free speech, democracy, rule of law. Set against our liberal values and basic human decencies”

“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”

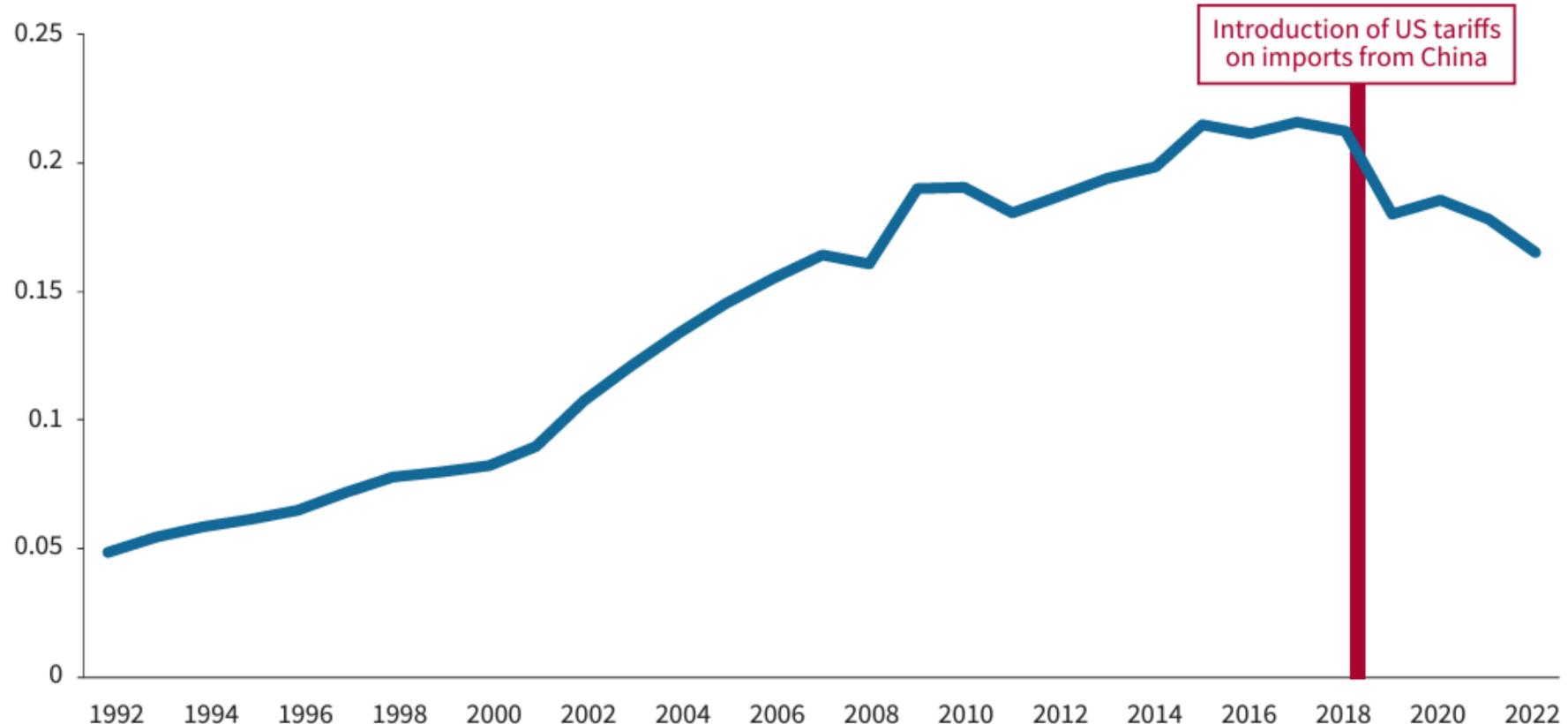
# Global Trade Integration: World Exports plus Imports as a Percentage of World GDP



# 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

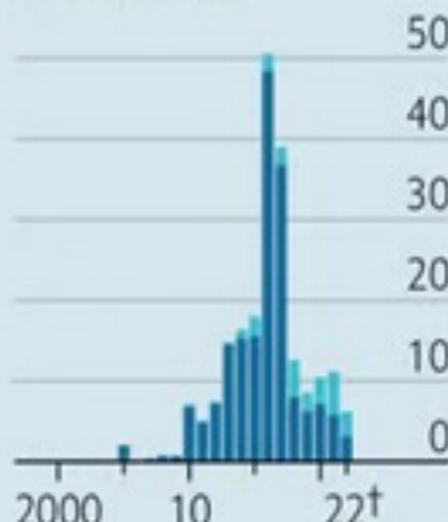
United States and China, \$bn

■ Foreign direct investment\* ■ Venture capital\*

US to China



China to US



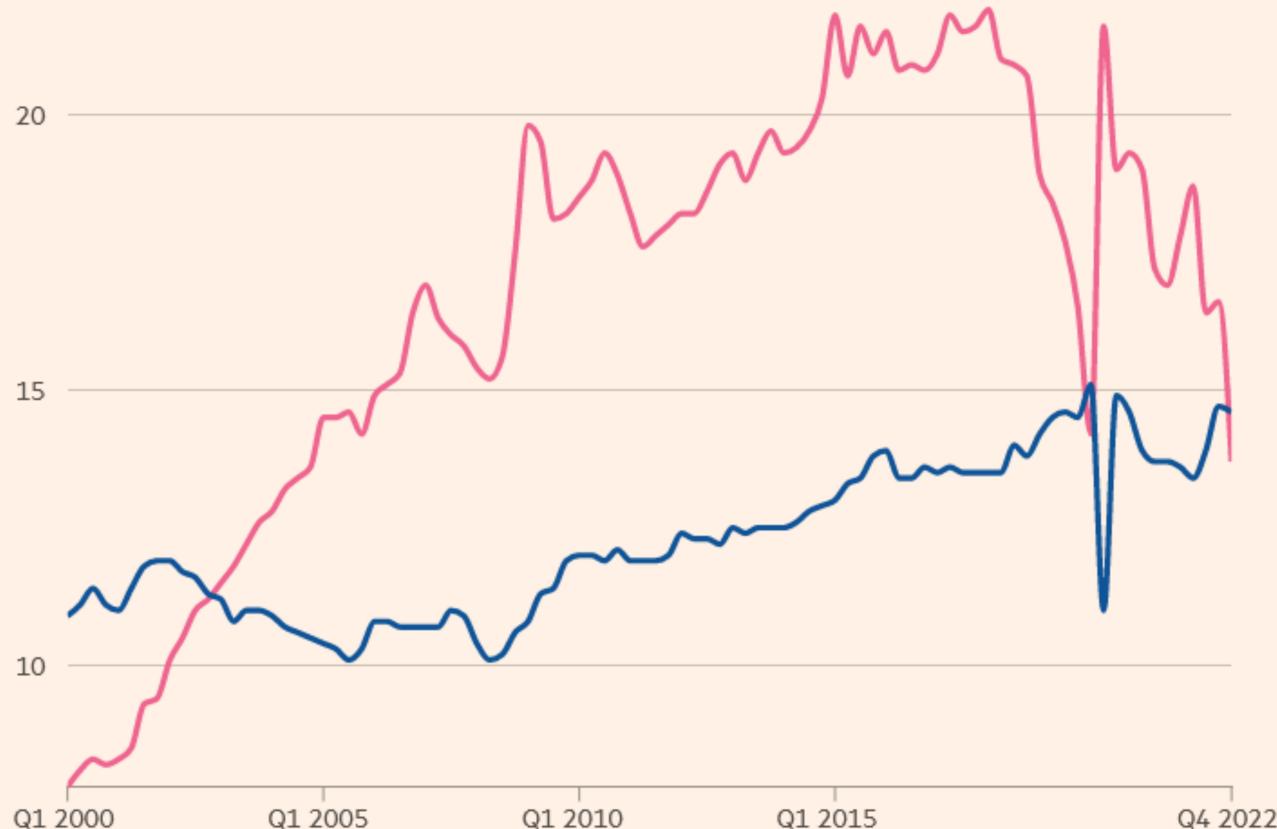
\*Only including deals worth over \$1m †Estimate

Source: Rhodium Group

## US imported more goods from Mexico than China in Q4 2022

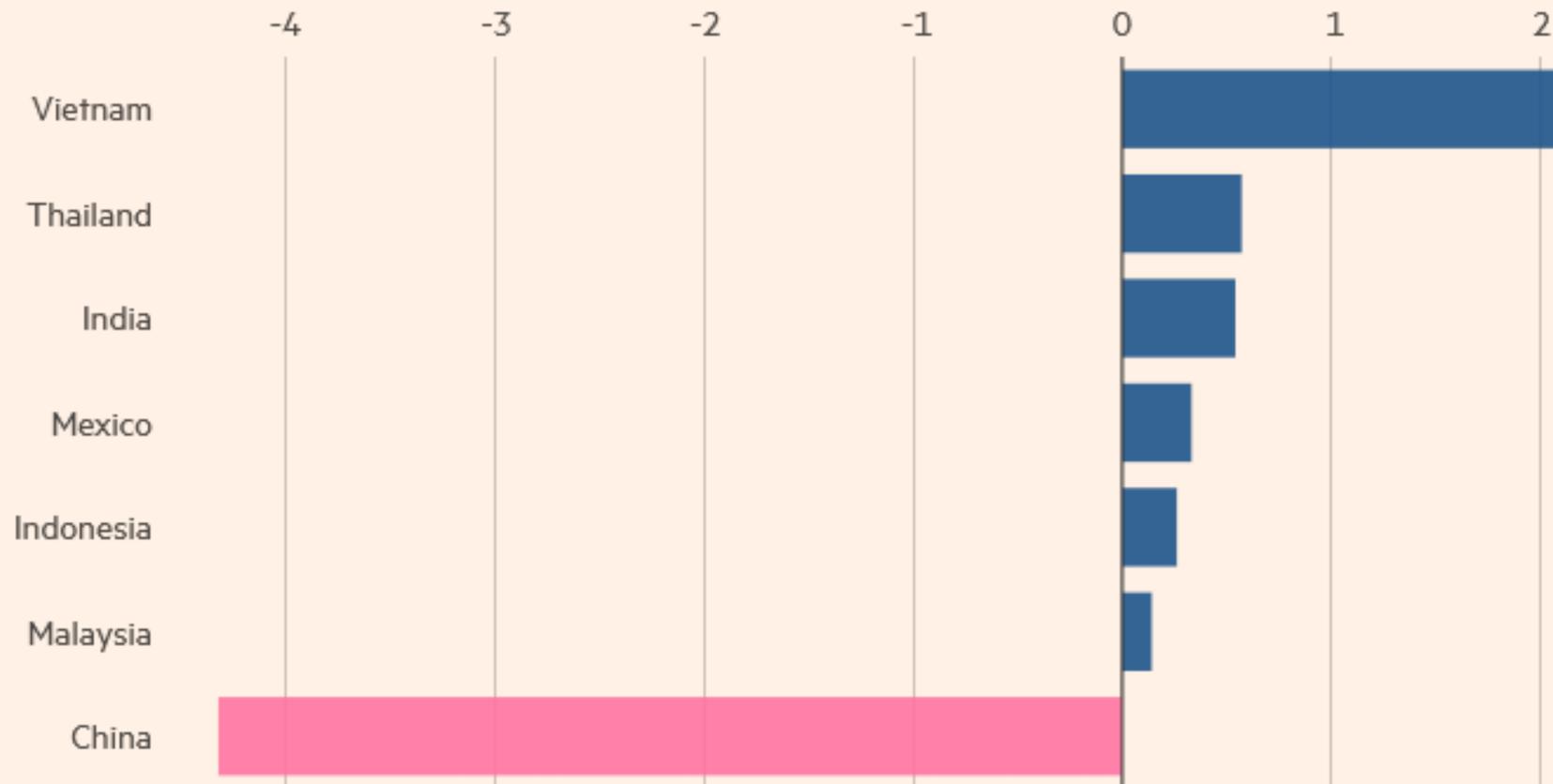
Share of US goods imports (%)

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)



# What is the endgame for de-risking, decoupling, diverting de-China?

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.”

# Complacency in the Plus Ones

1. High 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

# Lessons, 2: Deglobalization, fracture, de-China

1. Deglobalization, precautionism, and resilience-adjusted trade
2. Reality of de-risking and deglobalization: Just de-China?
3. Equal-opportunity discrimination on the cards for Plus Ones?

## Opposing forces

# 3 – Navigation

# Third Nation agency is not how most of us think about the world, instead:

“It would be as ridiculous to construct a theory of international politics based on Malaysia and Costa Rica as it would be to construct an economic theory of oligopolistic competition based on the minor firms in a sector of the economy.”

(Waltz, 1979)

“(...) the strong do what they will, the weak suffer what they must”

(Thucydides)

		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

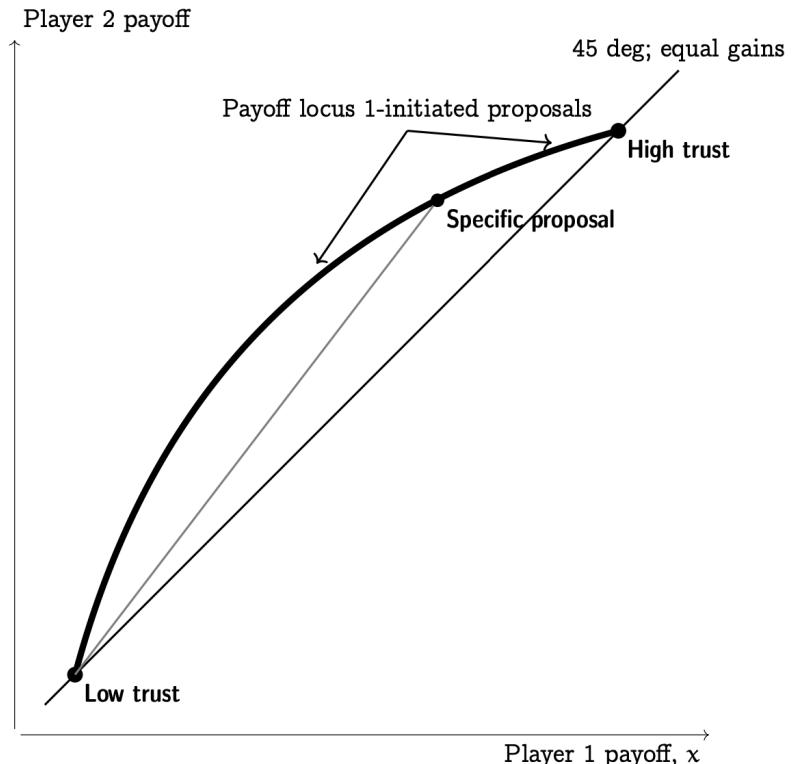


Figure 3: Relative gains. Inertia and Third Nation agency. **Low trust** and **High trust** points correspond to  $(-5, -5)$  and  $(5, 5)$  outcomes, respectively, in Table 1. As in the usual Prisoners Dilemma reasoning, the **Low trust** equilibrium shows hysteresis when Great Powers confront each other through a lens of relative gains. However, through judicious play as described in the text, Third Nations can, at lower cost, shift the equilibrium from **Low trust** to **High trust**. A striking feature of this dynamic is that Third Nation intervention can, in the long run, have vanishingly small cost.

# Lessons, 3: Navigating Principles for A New Global Economic Governance

1. “Stronger together”. Trade, increasing returns, or complex emergence.
2. “Inadvertently cooperate”. Third Nation Agency and Great Power Elasticity: Nudge out of epic-loss gridlock. Steer clear of zero-sum challenges
3. “Don’t let the perfect be the enemy of the good”. Plurilateralism

# Conclusions

1. Asia: Savings and Investment. Trade and market access. Some industrial policy. Technology transfer. Good, not perfect.
2. Deglobalization. Precautionism and resilience-adjusted trade. Equal-opportunity discrimination on the cards.
  - (a) Deglobalization, decoupling, de-risking: in actuality, de-China
  - (b) For “Plus Ones”, opposing forces for the way ahead
3. Navigation. Third Nation agency
  - (a) Don’t succumb to Thucydides
  - (b) Nudge out of epic-loss gridlock; steer clear of zero-sum
  - (c) “Don’t let the perfect be the enemy of the good”. Plurilateralism

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