

IN FOCUS

PROF DANNY QUAH is Dean and Li Ka Shing Professor in Economics at NUS's Lee Kuan Yew School of Public Policy. His research interests include income inequality, economic growth and international economic relations. Prof Quah's current

research takes an economic approach to world order – with a focus on global power shift and the rise of the East, and alternative models of global power relations.

PROF DANNY QUAH

A Thucydides Fallacy: The New Model of Power Relations for Southeast Asia, the US and China



HAVE SOUTHEAST ASIA, THE US AND CHINA SHIFTED TO A NEW MODEL OF POWER RELATIONS?

When the US switched from Trump to Biden, expectations around the world were set high for change, not least in US-China relations. Certainly, several significant positive and profound course resets have taken place. In early 2021 the US rejoined the Paris Agreement on Climate Change, and halted withdrawal from the World Health Organization. Over the course of all of that year, US turn-around on COVID-19 management was visible and marked.

However Trump's base saw him, in his dealings with the rest of the world Trump was volatile, capricious and wilfully random. Trump allowed members of his administration to project of the US an understanding of extreme, end-of-days, life-or-death struggle with chosen national enemies.



Anchorage, Alaska

The first meeting between the US and Chinese officials under the Biden administration was held in Alaska on 18 March 2021. China says a "strong smell of gunpowder and drama" resulted from these talks.

Photo: Frederic J. Brown / Pool Photo via AP, File

But despite all this, on US-China relations, the world might legitimately ask if the change from Trump to Biden has been an improvement. Trump used to say he had a great personal affinity with China's leader, Xi Jinping. Trump referred to the Uighur encampments in Xinjiang as the "right thing to do". Trump showed no powerful abiding belief in any grand ideas. All this suggests that Trump's gripe with China was narrow, and spoke only to his obsession with the US-China trade deficit and what that did to his base.

On the other hand, Biden, too, has to recognise the 74 million Americans who voted against him and for Trump. This is more numerous even than that which voted for Barack Obama in 2008. Moreover, all those Trump voters align with Biden's supporters in one singular idea, that China is a rival that dangerously threatens the position of the US in the world. On this, Biden has recourse to narratives that Trump never did. Biden will examine China on its record of labour standards, environmental protection, human rights and liberal democratic values. Several times in recent years, Biden has described how he considers Xi Jinping a thug, without a democratic bone in his body.

So, Biden could well be the US leader that sets to rights many of the challenges that lowered America's standing in the world over the time of the Trump presidency. On US-China relations, however, it remains genuinely unclear whether the Biden administration will bring about a more sensible geostrategic competition. Either way, a rethink of Great Power relations remains almost surely timely.

[The following part of this article was originally published in *The Diplomat* on 27 July 2019.]

With full international attention on the US-China conflict, it is easy to forget that other nations might still have a role to play in how the world order evolves.

The Shangri-La Dialogue of June 2019 gave some clues. The meeting began with Singapore Prime Minister Lee Hsien Loong's keynote speech, in which he argued that while Asia continued to value the US' presence, the US needed to learn to accept China's rise. This was "met with shock, dismay and even [...] a measure of incredulity by some US delegates" there and continued "to reverberate in Washington policy circles," Hugh White wrote in an op-ed for *The Straits Times*. The meeting's last day had Singapore Defence Minister Ng Eng Hen noting that "if America First or China's rise is perceived to be lopsided against the national interests of other countries or the collective good, the acceptance of the United States' or China's dominance will be diminished."

In response, Bonnie Glaser — an American scholar and Asia observer — warned the region to "not draw a false equivalence between US and Chinese actions". Glaser suggested "the choice that Southeast Asia must make is not between the US and China," but "between a future in which there are shared rules and norms within a rules-based order that everyone upholds, and a future in which power prevails, the strong bully the weak and rules are disregarded in favour of a 'might makes right' approach."

The choice Glaser presents is significant in having only two predetermined options. In essence, the message is: "With us, you get international rule of law; with the others, you get arbitrary exercise of power. Nothing you do will shift that."

For realists, such reasoning resonates: great powers are engaged in an existential struggle for supremacy. Onlookers do not count. In Thucydides' words, "[...] the strong do what they can and the weak suffer what they must." Or, as Kenneth Waltz

In the marketplace for world order, small states like those in Southeast Asia are indeed price-taking consumers. But that does not imply the demand curve is flat, nor that that curve cannot shift.

wrote two millennia later, "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."

The difficulty, however, is that any marketplace — whether the world order or anyone's favourite economic sector — is more than just a supply side populated by firms. Every market is powerfully moved by both supply and demand. Equilibrium outcomes result jointly from what the supply side provides and what the demand side chooses to buy. Providers and customers both have agency.

Call this the Thucydides Fallacy, where the demand side is ignored in the determination of world order.

In the marketplace for world order, small states like those in Southeast Asia are indeed price-taking consumers. But that does not imply the demand curve is flat, nor that that curve cannot shift. Suppliers in this marketplace compete with one another to satisfy the demand for peace and prosperity, for trust, and for leadership in trade and technology, in return for compensation in the form of some kind of tribute, whether soft power, prestige or the potential for alliance.

The Mekong power play

The Mekong River has become a battleground in Sino-US rivalry, driven by China's promotion of the Belt and Road Initiative and the Lancang-Mekong Cooperation. China has constructed 11 giant dams along the Upper Mekong including the Jinghong Hydropower Station, which was claimed by a US-funded study to have held back waters during drought in the lower regions.

Photo: Imaginechina Limited / Alamy



Hugh White's re-statement of Lee's speech describes Asia as an articulate and empowered consumer: "China's conduct raises deep anxieties among its neighbours, but that does not absolve the US of responsibility to react prudently and realistically in a way that does not make a bad situation even worse, which is what it is doing now. [...] Asians will welcome America remaining a major strategic player in Asia but will not support America in trying to contain China's legitimate aspirations for wider regional influence." Outside Asia, this change has occurred too: a recent survey finds Germans trusting China more now, and the US less.

The equivalence that Glaser eschews is actually a clear-eyed view about the actions of alternate providers of world and regional order. Each supplier brings commodities to the market that provide benefits at the same time they inflict costs.

The economics taught at the world's best universities — whether in the West or the East — says that when confronted with options, consumers scrutinize each offer to see how well it suits. Consumers should study advertising sceptically, appropriately weigh up costs and benefits, and choose consumption bundles to mix and match optimally to increase their well-being. In every marketplace, consumers should band together and extract the best deal from potentially oligopolistic or, worse, monopolistic suppliers. Consumers must be well-informed and organised, and ask for what works for them.

The demand side should exercise agency. Small states should learn they can affect outcomes for world order.

For Southeast Asia's nation states, ASEAN is the canvas for a natural banding together of the demand side.

Choosing to be an empowered consumer, and thus remaining on the demand side, does not mean exposing oneself to bullying from the supply side. Sure, even in modern developed markets, large firms on the supply side can exploit customers by behaving as price-gouging monopolists or

The powerful on the supply side protect the demand side because doing so advances their own self-interests, not because of rule of law.

conniving oligopolists. The supply side will only behave in whatever way advances their self-interests. However, once the demand side becomes sufficiently wealthy in their own right and can generate an expected stream of sufficiently great value — whether in tribute, shared prosperity, the according of admiration or prestige, or in their potential as allies — the supply side becomes incentivised to treat the demand side with respect.

Rules-based markets and modern governments exist today because in history, roving bandits — initially nomadic, only plundering and marauding for short-term gains — became stationary bandits, once they understood they stood to gain by such change. These powerful groups began to nurture and protect the population around them that the latter might undertake longer-term agricultural cultivation, commerce and investment. Jointly, all achieved prosperity with the aid of enduring economic institutions.

The powerful on the supply side protect the demand side because doing so advances their own self-interests, not because of rule of law.

The marketplace for a new world order also promises improved balance between supply and demand.

In the new world order Asia's leadership does not mean Asia has to become an alternative architect. Instead, Asia only needs to be an articulate and empowered consumer, and allow demand and supply to work in the marketplace. With care, thought and unity, ASEAN (and indeed all of Asia) can continue to make a success of this new marketplace for world order. ☺