Bruce Edwards:

Trading among nations big and small has long helped maintain global stability. But geopolitical tensions of late have changed the rules of the game.

Danny Quah:

And I think there's a bit of a disappointment, that after working hard to rise to a point where we can compete, we suddenly discover that the richer nations, America in particular, have decided that these are no longer the rules of the game they want to play to.

My name is Danny Quah. I am Li Ka Shing Professor of Economics at the Lee Kuan Yew School of Public Policy in Singapore.

Bruce Edwards:

Danny Quah's research focuses on international economic relations, and he's been tracking global tensions from a rising East for more than a decade. His latest article, published in Finance & Development magazine, is on how multilateralism can survive the loss of consensus.

Welcome to the podcast.

Danny Quah:

Thank you for having me.

Bruce Edwards:

So to get us started, maybe give us a bit of a primer on how multilateralism came about. I mean, what was our first big exercise in nations working together for the greater good?

Danny Quah:

A good place to begin is at the end of the first World War, Woodrow Wilson, who was then President of the United States, felt that something was needed that would ensure peace, maintain collective security for the entire international community of nations. He and other world leaders reckoned that something like World War I should never happen again. And their big idea was that they needed to create an international community, something that had a one-world vision of nation-states that got together, they traded, they interacted with each other in a multilateral system of laws, and that is what would create an international community that could be at peace.

This was a wonderful idea. It was about the reign of law over all of humanity, but based on, in Woodrow Wilson's words, the consent of the governed, a phrasing that of course comes from the American Declaration of Independence. And this would be sustained by the organized opinion of humanity. As we know, this vision actually went on and won Woodrow Wilson the Nobel Peace Prize.

It was, however, much more popular with the international community than it was with his fellow Americans. And the isolationist opposition in the US Congress decided that America would not go along with this idea. And so when the international community did come together to form this multilateral order and called itself the League of Nations, America was not a member.

Bruce Edwards:

So the League of Nations was about addressing a balance of power issue. When did economics come into the picture as an incentive for greater collaboration between countries?

Danny Quah:

Now, that didn't happen until a little bit later because the great institutions of international economics did not come into being after the First World War. It was only after the next World War, the Second World War, that economics entered the picture. But in extrapolation from the Woodrow Wilson vision with three great ideas, first, the rules-based order as you say, and this would include a level playing field so that there would be open trade. There was a commitment, secondly, there was a commitment to peaceful dispute resolution, something that echoes things that we see in the World Trade Organization with its appellate body that's supposed to engage in dispute resolution. And thirdly, and this third idea is both politics and economics, is that collaboration needed to be the default by which nations dealt with each other.

So these were three wonderful ideas, and they struggled in that geopolitical climate until after the Second World War when economics firmly entered the frame. And one of the interesting things here is that economics and geopolitics began to work together building out the multilateral rules-based system. And it's really important to emphasize this, and I'm glad that you've already raised the question of economics entering the picture, because far too often in economics, we think of politics or geopolitics as being something that other people do. We don't think of our economic institutions as getting involved in that because, well, there's kind of a fear sometimes that when institutions get involved in things that seem like politics, our institutions are accused of getting involved in politics when we shouldn't. Our funding streams rely on our staying away from politics.

Bruce Edwards:

Which is a bit ironic, in fact, because one plays so much on the other, right?

Danny Quah:

Yeah, absolutely. But the second idea that enters this is that often economists then consider that geopolitics is the dustbin of bad economics. Their thinking is that with economic analysis, we've built a wonderful set of ideas, frameworks, platforms around which engagement across nations can take place. But oh, oh wait, here comes geopolitics with its non-economic, irrational thinking, messing everything up. But the wonderful thing about the history of multilateralism is that it shows the opposite. It shows geopolitics and economics working together. Economic calculations informing geopolitics. It's something that I feel that in economics we don't often play up enough, the way in which economic calculations entered the formation of the geopolitical world.

So your question about when economics began to enter this picture of multilateral construction happened after the Second World War and took a long time. It took decades before we realized that these two things could work together. And bizarrely, it was competition with the Soviet Union during the Cold War that transformed the political multilateral system into an economic one, because eight decades ago, America, the architect of the system, even if it was outside the League of Nations, America found great advantage to supporting a multilateral international economic system.

And there's a very simple reason why. The Cold War against the Soviet Union had America's great adversary opposing free markets and open trade. America gained geopolitical mileage from taking the contrary position, adding to the economic benefit that America drew from the multilateral international economic system and in turn helping build that out. So it was right there that economics entered the picture.

Bruce Edwards:

And today when we talk about multilateralism, would you say it's economics or politics that has the upper hand in terms of influencing these agreements?

Danny Quah:

Interestingly, I think that, and mine is not necessarily a very popular view, but I think it's one that has historical empirical evidence backing it. I think that today's world is one where economics and geopolitics have again allied with each other, and peculiarly, both of these are now driving the world apart. And the reason is not necessarily a popular view. It's because so many of us who are economists think that the economic value proposition to the world staying together, holding firm against decoupling, is the right view. Because after all, we would lose so much by decoupling.

But we have to recognize that the economic experience that many countries have in this new globalized multilateral rules-based order is one that doesn't fully appreciate the win-win benefits of comparative advantage. What a lot of the world sees instead is in some parts of the world, the so-called China shock. And for them, the China shock is now synonymous with the globalized multilateral rules-based order that we built. American presidents from Eisenhower through Kennedy, through Nixon, all the way through Bill Clinton, pushed the idea of globalization as a way to bring China into the international system. That would be a good thing that would help us, the West, counter the Soviet Union. And we had shown how doing that already defeated the Soviet Union, but China's economic prowess has surprised us and it's turned the economics of globalization on its head because the China shock is now viewed in many countries, not just the United States, as an influx of Chinese imports that is stealing our jobs, hollowing out our industry, turning into ghost towns what were once thriving middle-class communities. That is for many people what globalization has become.

And so the economic forces are now working together with geopolitical forces to continue to fragment the world and drive the world apart. Multilateralism is fraying, peculiarly for the same reasons that have brought it together with economics in the first place. Economics has turned around and geopolitics has followed along. Geopolitics has constructed a narrative that confirms and supports the China shock hypothesis. It's very unfortunate, but that seems to be the way the world has gone.

Bruce Edwards:

So in this piece that you wrote for Finance & Development, you say one of the reasons why multilateralism is splintering is because it's an expensive public good. Why expensive? What do you mean by that?

Danny Quah:

Okay. I think I might describe it as saying that it is an expensive public good, but in the grand scheme of things that cost is well worth paying because multilateralism, this rules-based order that has brought about globalization and a level playing field, has benefited so many in the world. What is true is that supporting the multilateral rules-based order is costly.

And the challenge is not that the costs outweigh the benefits, it's that the benefits are uniformly distributed across nations, but the costs are relatively concentrated. So the architects of the multilateral rules-based order, America, many of the rich nations in the world in the transatlantic region, find that their support of the multilateral rules-based order seems to make it so that their benefits do not justify those costs anymore.

I think it's a tricky calculation, but maybe a physical analogy is helpful here. Think about the multilateral rules-based order with a level playing field as being like all nations in the world having each of us a boat that's floating in a pool. It's a very large swimming pool, so all of us have got boats in there. And that pool is leaky, but it benefits all of us to have our boats afloat in the pool. The level of the water is subsiding because of these leaks. And so every nation is supporting the multilateral rules-based order by adding water to the pool as best they can. And so you have this picture of all nations on the side of the swimming pool pouring water into the pool to keep their boats afloat.

And here's the thing, the larger, richer nations have bigger buckets. So they're topping up the pool more, given their natural larger capacity. And smaller, poorer nations are working just as hard, but their buckets are smaller, their capacity is smaller, so they end up topping up less. The problem is that while a rising pool lifts all boats, everyone wants the maintenance of the multilateral rules-based order, it is the larger, richer ones that have the most consequential impact on keeping the pool filled with water. That's the situation.

Now, there are two views. There are different ways to now view what the larger, richer nations are thinking. In the old days, when they felt that the multilateral rules-based order was a good thing, this included America and others, they saw that when they added water to the pool, they kept afloat their own boat. Intentionally or otherwise, this kept afloat all of the boats. Everyone else's boat was kept afloat.

In the old days, the great power is not bothered by that as long as it itself continues to have its boat afloat. Now, what's changed in the world is that other boats are almost as large as America's boat. China's boat is almost as large as America's boat, and America feels that by its continuing to top up the multilateral pool, it's actually benefiting China more than it is itself. It's benefiting everyone else more than it is itself. And so rightly or wrongly, America and others have begun to develop a zero-sum perspective on filling up this pool. They feel that when others benefit from America's actions, that is somehow a manifestation of others having taken advantage of America. So America's aggrieved. It seeks to cordon off its part of the pool away from everyone else so that when it now tops up the pool, others don't benefit as much anymore.

But of course, the old reasoning still remains. And so that's the quandary that we're in. There's a challenge in perception, and there's a challenge in understanding what it is we do when we support the multilateral rules-based order. And the sense in which it's expensive is that in the views of those nations who adopt a zero-sum perspective on the multilateral rules-based order, it's no longer a value proposition for them. Even though nothing has actually changed, they've taken a zero-sum perspective on the matter now.

Bruce Edwards:

So now what happens when all that starts to break apart? I mean, you've done a lot of research over the years about what you call the Great Shift East, and you just touched upon that. Is that one of the reasons why things are falling apart, do you think? Or is it more of a product of the global economy shifting eastward as you suggest?

Danny Quah:

Yeah, I think the two dynamics are at this point working against the kind of benevolent leadership that America and other rich nations used to exercise. So America decades ago confronted a threat from the Soviet Union by filling the pool and helping everyone appreciate the benefits of open markets and free trade. It countered the influence of the Soviet Union. Now, its great adversary in the world is China. And China is fully leveraging the benefits of the serving pool, is fully appreciating the benefits of a multilateral rules-based order.

So at the margin, America feels that its gain from continuing to fill up the pool, from continuing to show benevolent leadership, is not as great as before. And part of that is very much what you are referring to in terms of the Great Shift East. China and many other nations on the eastern side of our planet have now grown bigger boats. And those bigger boats are now much more visible. And from the perspective of America, these other countries with low per capita incomes but high populations are not pulling their weight in filling the pool. They're claiming to be developing countries still. And so America is aggrieved for multiple reasons. It finds that the cost to itself relative to benefit rising, and it sees others benefiting even more.

Bruce Edwards:

And so again, in your F&D article, so you talk about how one of the problems with multilateralism is the concentration of power, that it shouldn't be in the control of only the big economic powers of the world, that middle powers can play a role in maintaining a certain level of collaboration between countries when relationships between those superpowers become dysfunctional. And you use the ASEAN region, or the Association of Southeast Asian Nations, as an example. So what has been their approach to overcoming some of the recent failures in global trade, for example?

Danny Quah:

Yeah, there's still a belief in ASEAN, both across the small member states of ASEAN, like Singapore, and the big ones, like Indonesia, Thailand, Philippines, that the principles of free trade and comparative advantage when played out according to WTO roles, following practice set out by the World Trade Organization, is still a very reasonable pathway to economic success. I think that still continues to be a firm belief. And so ASEAN seeks to continue to leverage the engine of growth that is international trade, and that's a firm belief that's borne out by what we've observed in the ASEAN region in terms of the impact of trade.

And incidentally, it took decades for ASEAN to become convinced of this. When we were talking about the history of the emergence of the multilateral rules-based order, there was long ago the view that small nations like the ones we have in ASEAN, whether they're small because populations are small or they're small because incomes are low, would not be able to tolerate or withstand the cutthroat competition that comes from having to stand up against powerhouses like the United States or Western Europe.

So we worked hard to overcome those obstacles. And I think there's a bit of a disappointment that after working hard to rise to a point where we can compete, we suddenly discover that the richer nations, America in particular, have decided that these are no longer the rules of the game they want to play to. And so there is a view in ASEAN that we've got to do whatever we can to keep the engines of growth, the pathways to prosperity still open. Part of that draws on the idea that if it's not the great powers that can support the multilateral pool, the multilateral rules-based order, it might be middle powers or somewhat lesser powers who can do that. And I think that's a very attractive proposition.

I do have a warning about that, because supporting the multilateral system is an operation that has two relevant dimensions to it. The first is, can you afford it? Can you afford putting in lots of water into the swimming pool to keep everyone afloat? And obviously tiny, tiny states cannot do that as well as bigger states can. So affordability argues that the middle powers can, within smaller groupings like ASEAN, continue to carry forwards the multilateral story.

But my worry about this is incentive, because it's not just affordability that determines whether the multilateral system continues. It's incentive. Will the middle powers face the same cost-benefit calculation that have convinced the great powers that supporting the multilateral system is no longer something they want to do? And if the middle powers get into that quandary, will the smaller states now face again the problem that we're all facing now? My worry is that that economic proposition on incentive is the critical one. And so we need to build multilateral systems that are robust, that can protect themselves against simply small states and big states being different kinds of players.

I think one of the virtues of ASEAN is that we do try and approach the coalition, the grouping in that way. We try and keep things on an even keel so that it's incentive that drives the construction of the system, not just affordability and size.

Bruce Edwards:

So here at the fund, we talk about pragmatic multilateralism. Is that how you would describe the ASEAN experience? And is it perhaps, do you think a model for multilateralism in the future?

Danny Quah:

I think I like very much the term pragmatic multilateralism. I think it strikes all the right chords in telling us the way to go forward. We want to keep the multilateral rules-based order, the level playing field, the commitment to peaceful dispute resolution, that cooperation is the natural way to go. At the same time, we recognize that there are tensions that we need to be patching up along the way, hence we have to be pragmatic about it.

In ASEAN, there's something called soft norms. Soft norms, in my view, provide an alternative description of pragmatic multilateralism. Another term that I like and I've been trying to explore in my own writings is pathfinder multilateralism. And what it says is that we want to hold on to the principles of multilateralism, the three ideas, rules-based order level playing field, peaceful dispute resolution, commitment to cooperation. But we realize that at different points in time, not everyone is able to sign up to that.

So pathfinder multilateralism says whatever group we can find that holds onto these, we form a coalition. And as that coalition grows and costs and benefits continue to evolve, we are open to how different countries want to come in and out on different problem domains and we continue to build. It is inclusive, but it doesn't force everyone into a one-size-fits-all kind of agreement. I think all of these are potentially good ways ahead, and I think that the world at this point, it might not have a choice. It no longer has multilateralism as a fallback. It will need to experiment with all the variants that we have put on the table.

Bruce Edwards:

Danny Quah, professor of Economics at the National University of Singapore, thanks so much for sharing some of this fascinating research. You do really interesting work, and I look forward to reading more about it.

Danny Quah:

Thank you very much for having me on this. It's been such a pleasure to get to speak to you, and I hope very much we all can continue to advance these ideas.

Bruce Edwards:

Thanks so much.

And again, that was Danny Quah, professor of Economics at the Lee Kuan Yew School of Public Policy in Singapore. Check out his latest article in the September edition of Finance and Development Magazine. Go to imf.org/fandd.

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I'm Bruce Edwards. Thanks for listening.