

# 24<sup>th</sup> Global Economy Lecture

## Danny Quah on “Demand and supply in a new world order: the role of non-great powers”

*Compiled by Maria Silgoner<sup>1</sup>*

On November 11, 2019, the Oesterreichische Nationalbank (OeNB) hosted the 24<sup>th</sup> Global Economy Lecture<sup>2</sup>, which was delivered by Danny Quah, Dean and Li Ka Shing Professor in Economics at the Lee Kuan Yew School of Public Policy, National University of Singapore. Professor Quah is a renowned researcher in the fields of economic growth and development economics and has made important contributions to estimation techniques. In his lecture, he focused on large-scale shifts in the global economy and the move to a new “world order,” sharing some preliminary findings from his forthcoming book on “Ordering the World: Truth to Power.” His considerations combined several fields of science: standard economics, international relations and political economics.

Since the middle of the 20<sup>th</sup> century, the United States has been a global leader in politics, economic development, culture and technology as well as a global military power. This period has therefore often been referred to as the American Century. After the dissolution of the Soviet Union, the U.S.A. has remained the world’s sole great power. In the decades following the Cold War, the U.S.A. grew faster than Europe and Japan. It was not only able, but also willing, to bear the responsibility and burden of acting as the global hegemon.

Today, however, the power of the U.S.A. has been undermined. The U.S.A. is no longer a role model for democracy and economic development. Nowadays, the European Union is more stable in social and economic terms, while emerging market economies like India or China have taken over the role of global growth engines. At the same time, the United States is no longer willing to bear the costs associated with the role of a global hegemon. As a benevolent leader, the U.S.A. might have been expected, for example, to find the appropriate measures to fight the pressing challenges of climate change, poverty and inequality.

This prompts the question of whether we need to replace our current “world order,” i.e. the norms, conventions and rules that guide behavior across nations as well as the shared understanding of these rules. Who could take over the role of the new world leader?

Traditionally, this question is discussed only from a “supply-side perspective,” i.e. by considering which country would “offer” to be a leader. Whether such a country could indeed emerge victorious from geostrategic rivalries depends, inter alia, on whether it is backed up by its economic size or dynamics or its military power. Asian politicians and economists today, for example, often argue that it would be just “morally fair” to let Asia take over world leadership. Any such shift

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<sup>2</sup> The Global Economy Lecture is an annual event jointly organized by the OeNB and The Vienna Institute for International Economic Studies (wiiw).

in world leadership might, however, end up in a “Thucydides Fallacy”<sup>3</sup> as, historically, switches from incumbent to emerging great powers mostly came with conflict and violence.

This line of thought, however, omits the demand-side aspect: Does the rest of the world actually call for, and will it subsequently accept, a new great power? In the past, the demand side, i.e. the countries accepting the global hegemon, was dominated by a small number of major industrial countries. Today, however, the demand side is far more complex – and thus, any transition to a new world order would also be far more complex than in the past. Emerging market economies are no longer economically insignificant, given that together they generate more than 50% of global GDP. We are confronted with a situation in which the demand side consists of a multitude of mostly small and medium-sized countries. In such a setting, the outcome of the battle among potential new leaders is far less easy to predict. We may actually move from a unipolar world order to a multipolar setting, in which several nations take over leadership in certain geographical areas or in specific fields. History provides several examples of small state agency. Professor Quah concluded that it is now time for a non-great power to take control and assume global responsibility.

The discussion following the Global Economy Lecture focused on the role of the European Union in the new global order, on the role small countries can play not only on the demand side but also on the supply side, on unilateral versus plurilateral or multilateral political and trade arrangements and on the implications a new world order would have for the financial system and the number of world currencies.

<sup>3</sup> *The Greek historian Thucydides (460–around 400 B.C.) described the epic struggle between Athens and Sparta.*