

# Should basic economic principles determine world order?

Professor Danny Quah asks if the days of a world order led by a single nation state are now over.

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*Asking what world order best serves all humanity – that provides the most compelling motivation for, and the best guide to, reshaping world order.*

**P**ut simply, a world order measures two things: the distribution of power across individual nation states and the relationships between those states. In a specific world order, each nation state must understand its status in the world and learn to deal with other nation states that matter to it.

World order also defines the choices available to nation states and sets the rules of the game. These understandings and arrangements help to determine expectations and set patterns of global priority and regional authority.

Among the principal outcomes of a world order are global governance and implicated issues such as security agreements. How does a group of nation states prepare themselves against extremism and terror, for example? Who determines when conflict calls for international action?

## Supply and Demand

Conventional narratives concerning world order tend to ask which nation occupies the number one position. They ask how rising challengers would manage a peaceful transition, and how small states with less power should respond to specific international proposals.

In other words, they focus on the supply of world order. They ask who can provide it and what form it will take. Under these terms, a global power shift represents a switch between providers when a nation becomes better equipped to supply world order than the existing one.

But what of the demand for world order? What do the seven billion people on earth want from it? Which nation states benefit most from being able to dictate the rules of the game? Which states are disadvantaged?

The reason for asking this set of questions is not idle curiosity. From economics we know that, under appropriate conditions, when demand meets supply, the result is efficient – i.e. it provides the greatest good to all at minimum cost.

Could this approach provide a different way for us to consider world order? If we draw on insights provided from economics, we could then ask the question: what feasible world order most efficiently serves the collective needs of all humanity?

What, we might ask, is a rational world order?

## The Merits of East and West

For critics of the current world order, the supply-side alone provides enough powerful reasons for seeking a different system.

In the last 35 years, the world's economic centre of gravity has shifted eastwards by 5,000km – away from the transatlantic axis between Washington DC and Western Europe, and closer to Asia. Some reasons for this are as follows:

- **EMERGING ECONOMIES** now have combined GDP (at market exchange rates) at 95% of the G7.
- **EXPORTS:** for countries such as Germany, exports to developing Asia have grown to more than one-and-a-half times those to the US.

- **CHINA:** despite weaker 7% growth in 2015, it still generated US\$790bn of GDP growth (at inflation-adjusted market exchange rates) – almost three times what it did ten years ago.
- **JOBS:** at average productivity trends, China's labour market generates 53 million new jobs.

Such observations suggest that the capacity for world power is no longer the sole preserve of the developed West.

At the same time, it is certainly legitimate to claim that the West remains the repository of soft power. US military power, US information technology, and the West's history of science Nobel Prizes still remain unchallenged.

There is an interesting debate to conduct on these measurements and counter-measurements. But it is by combining demand and supply – asking what world order best serves all humanity – that provides the most compelling motivation for, and the best guide to, reshaping world order.

Obviously, such a view will not sit easily with those nation states that gain clear advantages from a current or incipient world order. It certainly does not explain the existing one. But it is a compelling framework for observers who wish to stand apart and argue dispassionately for change.

## Why America warranted 20th century dominance

The current world order has worked well in the past. During the latter part of the 20th century, the US was an undisputed world leader, harnessing liberal

democracy and free market economics to great success. Over the course of what became known as 'the American Century', the US crafted a world order that was transparent, inclusive, democratic, and rules-based.

Charles Kindleberger, the great economic historian, reckoned that having a global leader such as the US helped to secure economic prosperity for all the world. The stability and leadership it provided opened the space for policy coordination across nation states. This idea became known as hegemonic stability theory, and helped to explain the need for a unipolar world order.

For its adherents, the power of this conceit is shown when the US has asserted its dominance, and also when it has not. Following the 2008 Global Financial Crisis, the US seemed to retreat from world leadership, and the global economy saw stagnation when there should have been recovery.

## Why should just one nation dictate world order?

According to the supply-side narrative, the US remains the nation state with the most powerful military, the most compelling soft-power discourse, and the largest economy – still twice the size of the next-largest. No other nation shows anything remotely close to the powers that America has held for the last 50 years.

But the demand-side narrative demands that we ask: is the US still the most suitable global hegemon? Two critical observations arise.

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First, when the US began its stewardship at the head of the world order, it was more mindful of how it would serve the needs of the world. The American people sought to share their Constitution as well as the products and skills of their nation. Advocates like Henry Luce saw the best features of a US-style governance extended towards a complete world order.

In current narratives, however, these sentiments have ceded to one which says that the US should dictate the rules of the game simply because it remains the world's most powerful nation.

Second, why should only one nation-state be the service provider? Why not specialise by sector? Perhaps the US can be military and security officer, China can design the global architecture for transport and energy, Singapore and the UK can provide the financial engineering framework, select small states could design systems of global public housing, and so on?

Only an accident of history provides the idea that one nation state must rule on every single front. Why would we ordinarily think that the parts of our society best at combative defence should also be

most suitable for the design of new technologies, for example, or cybersecurity to safeguard our internet infrastructure?

### What else might work?

To be clear: the demand and supply language here simply provides a metaphor, not a paradigm to be taken literally. A rational world order needs to focus on providing global public goods. Economic theory would suggest an optimisation programme that internalises the spill-overs and externalities of production. In reality, this is curtailed by the primacy of self-seeking action. The complexities of world order make the impact of this optimisation subtle, but it is worth considering.

Asking nation states to provide frameworks in a globally coherent way would not undermine the private marketplace. The scheme I envisage, which would deal only with global public goods (i.e. whatever private enterprise has no incentive to provide), would still be driven by private businesses. There would be no new encroachment on individual liberties or national sovereignties.

### Conclusion

The historical trajectory that has formed our current view of world order has produced many positive, beneficial outcomes. But if we were to question seriously whether our world order is still fit for purpose, we need to add more rational design principles into the architecture.

Above, I have described in broad terms how simple economic principles can help. Such a design would mean we rely less on simple measurements such as who has the best guns or the most robust economy, and could provide a fresh perspective on what modern world order might work best for the world.