IN FOCUS

OPEN QUESTIONS

Charting a course amid great powers

DANNY QUAH is an economics professor at the National University of Singapore's Lee Kuan Yew School of Public Policy and consults for the World Bank. As part of our OPEN QUESTIONS series of interviews, he talks to XINYI WU.



Illustration: Lau Ka-kuen

You have introduced the concept of a "G-minus" world. How do you define this model, and what does it mean for global trade?

The G-minus concept is the idea that global rules, norms and institutions need to operate well even without great-power permission. For the last eight decades, nations maintained sovereignty under an architecture supported and created by the United States – a great power that has largely been a benevolent hegemon.

But circumstances now reflect how the world no longer has access to that kind of benevolent leadership from the United States. It is time for us to think how, in the absence of a great power – or perhaps even against a great power's obstructions – we can still have a system that is multilateral enough, that has a level playing field, a system for peaceful dispute resolution, and a commitment to cooperation in the face of common challenges. In economic terms, we might say the G-minus world is an attempt to reduce the great-power elasticity on world order, that the rest of us can continue to function even if the great power behaves in unexpected ways.

Right now, the G-minus idea is an aspiration. But I think Asean [Association of Southeast Asian Nations] is an example of something that almost has a G-minus architecture, because Asean has spent the last six decades trying to get 10 – now 11 – very different nations to work with one another, without there being a leader that tells everybody what to do.

The RCEP (Regional Comprehensive Economic Partnership) is a good example of Asean success in trade. Many out there think of RCEP as a China-led grouping – it is not. It is an Asean-initiated grouping that happens to include China; it also happens to include Japan and South Korea.

> *Many think of RCEP as a China-led grouping – it is not. It is an Asean-initiated grouping that happens to include China; it also happens to include Japan and South Korea*

One might ask: how were nations brought together when relations are sometimes quite tense? My suspicion: because Asean leads itself. If this were China-led, I think it would be much more awkward for other nations that might feel certain kinds of discord with China to become full-blown members. It is Asean's ability to act in a way that fosters and encourages collaborative behaviour, without relying on a leader telling everybody else what to do, that has made RCEP a success.

But if tensions heighten, could Asean be forced to pick sides? For instance, is the region re-examining its supply chains and Chinese ties because of Washington's scrutiny of transshipments?

What Asean has done is allow its member states to navigate this rivalry without choosing sides. It has an architecture that encourages engagement with both great powers, while minimising the strategic vulnerability associated with them.

America's official policy is that its large trade deficit with China is harmful, and it has taken to levying tariffs on imports from China and taking action against third countries for transshipment or chain-washing. A knee-jerk reaction is to assume that you must pick a side: choosing America by helping to contain China's rise and not doing business with China, or picking China by paying no attention to America's tariffs because you think China is the winning side.

Asean is doing neither of these. Instead, it is deepening economic integration with China in a way that escapes the charge of transshipment. By ensuring that there is enough value added when goods pass from China through Asean to the United States, a piece of product that leaves Asean for the United States is identifiably Asean rather than Chinese.

For example, one of Asean's largest exports is in electronics. Chinese technology is important for semiconductors. But we assemble the semiconductors in Malaysia, Singapore and Thailand, and those semiconductors are then put into electronic goods higher up the value chain that are exported to the rest of the world. This is a case of significant Asean integration in addressing the rules of origin challenge from the United States.

And right now, America is scrambling because unless its administration sees a way to get around its own laws, it will no longer be allowed to charge Asean with transshipment. That is why it is appealing to Section 301 and other kinds of trade policies.

You will notice that in doing this, Asean did not require a leader. No one said that Asean should import these things from China, add value in Thailand, ship it to Malaysia, add further value in Singapore, before exporting from Indonesia. It emerged from nations figuring out that they could inadvertently cooperate with one another through Asean rules – another example of a G-minus narrative in managing US-China relations.

So Asean is deepening integration, not decoupling from China. But it is also not decoupling from the United States. America is a really important part of Asean's economic journey. America accounted for 16 per cent of Asean's exports in 2024 – it's probably a little more now. America invests hugely in foreign direct investment in Singapore, notably, and across the rest of Asean. Asean has figured out how to work with both powers, without antagonising either.

On the subject of trade deficits, surging exports this year – particularly in hi-tech industries – have fuelled concerns of a "China Shock 2.0". What's your take on this?

On the America front, the tensions are between America's consumers – who want to have cheap, high-quality Chinese goods in greater quantity – and the parts of America's industry that compete directly with Chinese industry and want to have less competition. What America is seeing now is an ascendancy of America's competitor industries, and American consumers are – for the time being – keeping relatively quiet despite being sidelined.

Europe has a similar mix of this. Its positioning in the industrial landscape makes it more similar to the United States, and so it too finds competition with China's similarly placed industries painful.

With the US side, there is an additional complication which is geopolitical and not purely economic. America's difficulties with China are bipartisan. The traditional Republican position says that America needs to be number one in the world and right now they feel that American strength is being challenged – it doesn't matter to them that this alternative hegemon happens to be China. On the other hand, the Democrats feel an awkwardness with China because they continue to have a vision of China as being a communist country that is authoritarian and disrespects human rights.

The Trump administration actually subscribes to neither of these views. [US President] Donald Trump himself says that President Xi Jinping is his great friend, and he loves the way China does things. But he is set against China, on the economic front, because his Maga base loves the idea that it is someone else's fault that jobs are not plentiful in America. Jobs actually are plentiful, just not in those industries and not in those geographies.

The rest of the world does not subscribe to either the American or European view on this. In South America, Africa and much of Asia, the way we see it, China's goods are high quality and affordable. We are not rich like the West. We can't afford to see these prices rise and we're glad that Chinese goods are cheap.

I want to be clear that China has also faced its own version of a China shock, or the World Trade Organization (WTO) shock to China. Many Americans and Western observers say China's accession to the WTO was what accorded its most-favoured-nation status, and that was what allowed China to succeed so spectacularly in exporting to the rest of the world.

But in China's accession to the WTO, China had to adjust as well, and its state-owned enterprises and its old way of manufacturing all had to be re-engineered. China did not move from a low-level developing economy to having sleek Shenzhen factories that assemble iMacs and iPhones overnight. It had to re-engineer its production processes, and in doing that, it laid off hundreds of thousands of workers in the northeast – jobs which never came back to China.

When you speak to industrialists in Heilongjiang, they will describe an experience of WTO accession that is very different from how the rest of the world thinks of China. They suffered deeply. For them that was the "China Shock".

So, China's coming into the world came at considerable pain to itself, and that is another reason it keenly feels the double standards that the West has imposed on it – in that we too felt that pain, we swallowed it and we re-engineered because you told us that is what we should do.

> *In South America, Africa and much of Asia … we are not rich like the West. We can't afford to see these prices rise and we're glad that Chinese goods are cheap*

You should do that too. You taught Asia's emerging economies that competition makes us all better if only we adjust. You lectured us that creative destruction means we have to let go of lagging economic activity, freeing up those resources so they can move on to more productive use. Economic awkwardness is the signal that tells us to shift to doing something else. Apply these lessons now to yourself.

So why haven't the "China shock" narratives been as prominent in Asean, despite Chinese exports to the region rising more than to the US and the EU this year?

In Asia, we have the consumers who want cheap, high-quality goods, and the competitor industries – similar to America and Europe. But we also have a third kind of key stakeholder: those downstream from what America produces and from what China produces. This group is part of

CONTINUED ON B2

Charting their own course



A group picture taken during the 21st East Asia Summit, at the 49th Asean Summit in Manila this month. Danny Quah says one of Asean's strengths is the way it encourages members to collaborate. Photos: AFP, Reuters

CONTINUED FROM B1

industry, but they see cheap and high-quality Chinese products as good because they use them as inputs. So China's technology and export prowess make it possible for them to also produce things that are cheaper and higher quality. This group adds a voice that is parallel to the consumer voice. They are quite pleased at China's manufacturing prowess, and they don't think of it as overcapacity or a China shock.

Again, using electronics and semiconductor manufacturing as an example: a lot of us have Nvidia on our minds when we think of chips, but there is also a thriving industry beyond those frontier chips. They are not any less useful to us – we have them in our cars, in our computers, in the shipping industry – and China does these really well and affordably.

There is also energy. Southeast Asia needs the kind of energy that allows us to meet our carbon commitments, and China provides the technology to help us do that. On top of Chinese electric batteries, solar panels and wind turbines, we have built an ecosystem of electricity transmission that plugs into everything else that we do.

To be very clear, there are also Asean voices talking about the China shock – Indonesian industry, for instance. I am politically and socially very sympathetic with those in societies that need help. But I have much less sympathy for tycoons whose business is now being undermined by cheap imports.

> *If you have been undermined by a competitor, you need to figure out what to do next to win back the market. In economics, we think of this as creative destruction*

If you have been undermined by a competitor, you need to figure out what to do next to win back the market. In economics, we think of this as creative destruction. These are the forces of market competition. You cannot just sit on what you are currently doing and complain about China taking away your business.

So how did the world manage past trade shocks, and what do you make of our way out of the current one?

In an earlier time, it was Japan that was Asia's champion in advancing technology. What Japan did was that it later moved on to higher value industries and it kept moving on. This created space in the industries it had left behind, with technology available for the rest of Asia to leverage. That was how a lot of the rest of Asia built out our jobs. If Chinese technology does not continue to advance and move up the value chain to create space, there will be problems.

Other observers might also say that the Japan shock was disrupted by America's actions on the Plaza Accord and the resulting yen appreciation, and America's trade sanctions against Japan. A lot of the American rhetoric against China now resembles American rhetoric against Japan then, but the circumstances are very different.

China is much larger than Japan. On the geopolitical front, Japan had its entire military defence outsourced to the United States, which had been the case since the end of World War II. China is in a very different position, and its military defence capabilities in some dimensions are comparable to those of the United States. China will never agree to the kind of currency recalibration that Japan did.

I don't see a clean resolution to the economic challenges that the US and China face. They are now stuck in a prisoner's dilemma-type situation, where America will continue to draw on investment sanctions, export controls, import quotas, tariffs – many different ways to directly or indirectly disrupt the flow of Chinese goods to the US.

China, in turn, has now found the critical minerals and rare earths card to be a reliable way in which it practises economic statecraft. It has used that against Japan, and it could also potentially use that against the United States.

If the stand-off continues, the great fear is that the world would go into a Smoot-Hawley type situation, and it becomes an arms race in tariffs – which first occurred in 1930s America at the start of the Great Depression. Thankfully, that has not featured since "Liberation Day". Countries have taken different approaches to this.

Malaysia has done a lot of acquiescence. It has agreed to many things that America wanted, to a point where there was actually domestic popular pushback against what had been agreed by the political leaders in Malaysia. But nothing disastrous has emerged from that; Malaysia is now in the midst of an economic boom. The semiconductor industry and the AI data centre race have been very good for Malaysia. And now the Agreement on Reciprocal Trade is no longer binding because the US Supreme Court has struck down Trump's "Liberation Day" tariffs.

The worry about the world falling into a Smoot-Hawley situation has not materialised, and perhaps the world can tolerate this for a little bit longer.

China is actively promoting yuan usage across Asean countries through trade settlements, panda bonds and cross-border payment systems, with Singapore serving as a top offshore yuan hub in the region. Why is Beijing focusing so heavily on Southeast Asia for its currency roll-out, and how successful have its yuan internationalisation goals been so far?

One natural question that comes out of this is: Is China setting up a replacement to the world reserve currency? I think that China is not, because China still has concerns about the convertibility of the yuan. It does not want its currency to float entirely freely on an open market, and it worries that its economy is not robust enough to withstand the potential destabilisation of a highly volatile yuan. It also recognises that the presence of the Chinese yuan out there, while growing, is not that large at this point.

But that might not be the right question to ask. The notion of the world reserve currency being the US dollar has always featured prominently in geopolitical discussion, because it means that America has access to specific policies like financial sanctions that other nations do not. The recalibration of the Japanese yen also reflected how America controlled the international financial system. But America can lose that power of control over the world's economy, even with the US dollar still being the world reserve currency.

So the right question could be: Can the rest of the world, for its own self-protection – not because it is trying to replace the American dollar – build enough structure so that it is no longer so vulnerable? This is what we're seeing with the yuan in Southeast Asia. The ventures are implicitly attempts to build alternatives, not replacements, that will give all of us greater control over our financial business instead of ceding entirely to the United States.

Currency is one part of the problem. The other part is the pipes through which that currency flows. There is a Brics-plus counterpart to Swift emerging and China has the alternative CIPS, which is also a clearance and settlement system. There is mBridge and Project Nexus, which are more Southeast Asia-centred. They are multilateral and involve China, but they are not controlled by China.

I think for many Southeast Asian countries, this is a way to leapfrog the building of the international financial system, so we are keen to join in on these. We went from using currency – bypassing credit cards to a great degree – immediately into fintech and digital payment systems.

And for China, if its trade with Asean continues to grow – and it looks like it will – there is every reason to use the local currencies rather than go through the intermediary of the US dollar.

During his visit to the US in September, Xi asserted that the Thucydides Trap can be overcome. Is this possible? What does an economic relationship of managed competition without escalating to confrontation look like in practice?

I am torn on this. I want to believe that as long as we are trading, no matter other disagreements, we would feel compelled to keep this economic relationship going and build institutions and norms that help us cooperate. But I also believe that trade can create tensions, such as the China shock.

Graham Allison, who coined the term Thucydides Trap, told me that America will not be happy until it is surrounded only by friends and fish. That is because America is a large enough place; it can actually contemplate economic isolationism. But for the rest of us – especially small states like the member states of Asean – we cannot. So for us, trade is central and existential.

But for America and China, trade need not be. China's growth trajectory was one that relied on exporting to the rest of the world, but China too is a continent-sized nation. Continent-sized nations can imagine being isolated from the rest of the world. I think the world will be poorer for it, but those two great powers can imagine that.

> *I don't see a clean resolution to the economic challenges that the US and China face. They are now stuck in a prisoner's dilemma-type situation*

That is why we need to advance the G-minus agenda urgently. Because if those two great powers cannot reconcile these issues and they are forced into choosing isolationism, the rest of us – that's 80 per cent of the world – have to figure out how to manage this.

What role, then, does Asean play in great power rivalry?

For a while, it looked like the great powers viewed great power rivalry as imposing a choice that Asean needed to take sides. Asean has been very clear it will not.

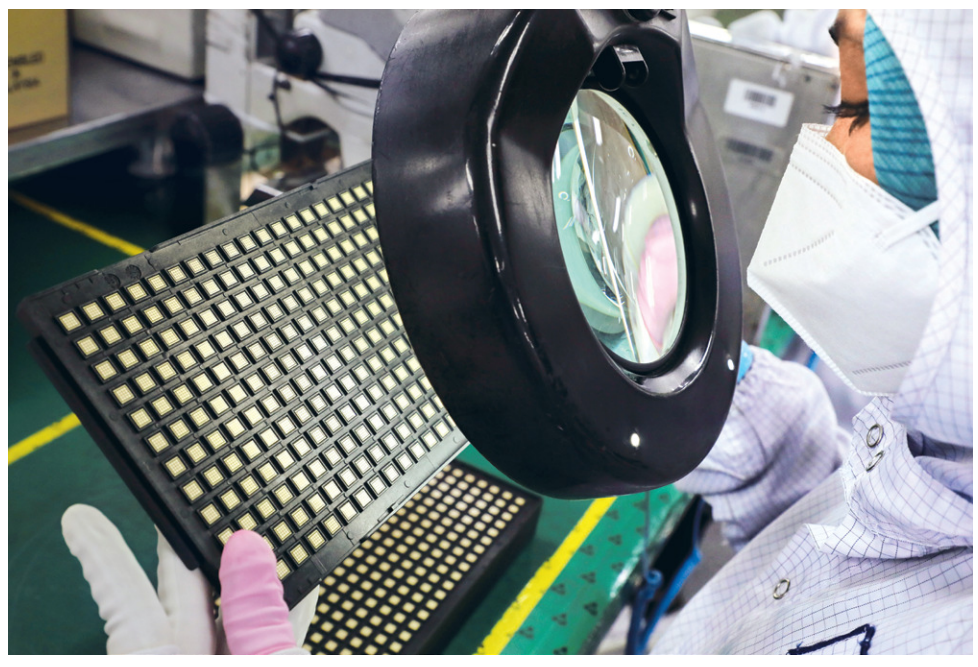
What Asean is doing now is trying to expand optionality by economically integrating with China's supply chain, and improving its own economic strength and resilience by adding value in that supply chain. We are telling America that we respect its right to impose sanctions because it has concerns. While respecting those rights, we are able to adapt in a way that keeps us on the right side of your sanctions. We are economically resilient.

Asean is trying to work with both great powers and increase its range of options, but keep from being vulnerable to either one. I think implicit in your question is: what happens if the great power rivals then act in a way that shrinks Asean's options? This is like the ISEAS questionnaire, which asked if forced to choose a side, which side would you choose? For the past few years, the margins have been tight.

And if we get to that point, that would mean the world would have already shrunk its optionality in ways that western Europe does not figure. Africa, Latin America and the rest of Asia does not figure for Southeast Asia any more. It would mean that everything has just merged into a background and it is only America and China left.

If we come to that point, we have lots of other things to worry about. So, we need to make sure that all of the world continues to play a role in Asean's economic landscape. We cannot allow the great powers to shrink our optionality.

This interview first appeared in SCMP Plus



A worker inspects semiconductor chips at a chip packaging firm in Ipoh, Malaysia, in 2021.