

SOME BRIEF THOUGHTS ON THE TWIN “REVOLUTIONS”

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It is an honor to be invited to offer some brief remarks on the “Twin Digital and Green Tech Revolutions in the Indo-Pacific.” In the brief amount of time that each speaker has available, I want to address two questions:

- (1) Are these really “revolutions”?
- (2) Can we identify a useful typology of state responses?

(1) Revolutions?

There is no doubt that recent developments in digital and green technology are significant, but are they “revolutions”? Are they truly “structural”? My answer: not necessarily. Amid a seemingly big historical event, there is always a temptation to *over-dramatize*; and that, in turn, can cause us to *overreact* – to respond hastily and possibly counter-productively. I fear that may be what is happening now.

I have been in this business, the business of academic scholarship, for more than six decades, going back to my doctoral dissertation, which I wrote in 1961-62. Every decade since my graduate student days has been marked, with almost metronomic precision, by what seemed at the time to be a “revolution” – a truly *structural* change. And then, as the years have passed, each “revolution” has come to appear less and less revolutionary and increasingly incremental. Specific details of institutions and rules may have changed, but underlying structures have emerged intact. With the wisdom of hindsight, I see in this history more continuity than “revolution.”

Conceptually, my view has its roots in the work of the great political economist John Ruggie, who insisted on a clear distinction between a change *within* a system (a change of degree) and a change *of* a system (a transformation of kind). A change within a system is a change that is “norm-governed”: change at the level of formal rules and decision-making procedures, but not at the level of underlying principles and norms, which are the foundation of a system. A structural “revolution” involves change at the level of principles and norms themselves. By that standard, I would argue, most systemic change since World War II has been more norm-governed than revolutionary.

Consider the record, decade by decade, focusing on my area of specialization, international money, and finance:

- 1950s: end of the dollar shortage.
- 1960s: run-up to the Nixon shocks of 1971.
- 1970s: two oil shocks (1973, 1979).
- 1980s: Latin American debt crisis (1982-89).
- 1990s: Asian financial crisis (1997-98).
- 2000s: Global financial crisis (2007-09).
- 2010s: Emergence of China and the renminbi.

In each decade, there was a major event that appeared to threaten to “change everything.” Yet, well over half a century later, the international monetary architecture looks very much the

same. The system is still essentially market-based; most rules and procedures, embodied in the original charter of the International Monetary Fund, remain intact; and in geopolitical terms, the United States and the dollar still reign supreme. All of this history should be kept in mind while thinking about today's presumed "revolutions." It would not be helpful to act in haste.

Responses?

But, of course, neither would it be helpful to do nothing at all. Even if not truly revolutionary, recent developments in digital and green technology are notable events that will most certainly oblige governments in the Indo-Pacific, and elsewhere, to respond purposefully in some way. What strategies are available? In thinking about government responses to a significant new development, I find it convenient to recall some basic principles of oligopolistic market theory, which suggest that first of all behavior can be either *defensive* or *aggressive*: that is, designed either to build defenses against impending threats; or, alternatively, to go on the attack in order to enhance market position. In turn, each approach may be pursued either *unilaterally* or *collusively*, yielding four possible broad strategies. These are:

(1) *Market leadership*: a unilateralist policy aiming to promote existing advantages, analogous to predatory price leadership in an oligopoly.

(2) *Market preservation*: a unilateralist policy intended to defend, rather than augment, previously acquired advantages.

(3) *Market followership*: an acquiescent policy of subordination, analogous to passive price followership in an oligopoly.

(4) *Market alliance*: a collusive policy of collective action, analogous to a cartel.

In the Indo-Pacific region, some choices would appear inevitable, given current capabilities. At one extreme are China and the United States—each clearly determined to occupy a leadership position in the area. At the other extreme are smaller players like Malaysia or Thailand, who will feel they have no choice but to settle for a follower role. The real questions concern other countries that fall between the extremes. Two groups would appear to be most at issue:

(1) First, we have India and Japan, the third and fifth largest national economies in the world. Would they seek to compete aggressively with the market leaders, China, and the US? Or would they be more likely to limit their ambitions to preservation of their present positions?

(2) Second are middle powers in the region like Singapore, South Korea, and Taiwan – too small to challenge China or the US for leadership but also too inclined toward unilateralism to consider forming or joining a cartel. Would they choose some form of market preservation, or rather would they settle for market followership?

One final question: How likely is it, if at all, that some of the countries in the area might consider a market alliance – a cartel of some kind? Probability seems low.