

Asia's Evolving Development Landscape: The International Economics of Strategic Interdependence

Danny Quah*

May 2026

[\[Check for update\]](#)

Abstract

Asia's remarkable developmental success has been founded on, among other things, mutually gainful cross-border exchange of goods and services. But today's geostrategic competition and rupturing multilateralism mean novel structural constraints. The new international economics of strategic interdependence upends traditional thinking on trade openness, economic efficiency, and the benefits of price-taking and norm-abiding. New strategies are needed, where Asia's small states reassess previous strategies of parametric acceptance of prices and norms.

JEL: F13, F15, F42, F50, F52, F53, F63,

Keywords: acquiescence, alignment, globalisation, mitigation, small state, trade, world order

* Li Ka Shing Professor in Economics, Lee Kuan Yew School of Public Policy, NUS; and Faculty Associate, Centre on Asia and Globalisation. This paper has benefited from its author's discussions with Selina Ho, Matteo Maggiori, Maurice Obstfeld, and numerous IMF conference participants.

1 Introduction

It is a proposition widely accepted that Asia's continued growth and development now face headwinds despite a remarkable historical run of success.

Jobs and employment, finance, digitalisation, trade and integration, sustainability and the environment, industrial policy—how to run it, how to respond to it—and demography are notable among Asia's immediate and visible challenges. The other chapters in this publication provide frontier analyses of these problems.

This paper takes up a different, newly-emergent challenge: the disruption in the international economic system due to geopolitical realignment and the fraying of multilateralism. At minimum, as a matter of logic, this calls for a redrawing of historical global supply chains and patterns of trade. More likely and fundamental, however, and already observable is the reassessment of economic security, i.e., the place in economic policy-making of imperatives of economic efficiency and comparative advantage, relative to trust, resilience, and strategic manoeuvring. Geopolitical risk—risk that acknowledges the intentionality of actions by bad-actor nations—will be a significant and newly-prominent driver in the international landscape.

The remainder of this paper is organized as follows. Section 2 is a quick overview of the major systemic developmental success of Asia. This provides a empirically-grounded sense of scale in the challenge that Asia now faces.

Section 3 describes the disruption of the international economic system in terms of three shocks: the China Shock, the US Shock, and the Multilateralism Shock. Some of the risk that Asia and the world face arise from what is commonly identified by some observers as US-China rivalry, and by others as a potential new Cold War. This Section argues that that framing is misplaced and obscures more than it clarifies.

Section 4 analyses how Asia's states can navigate their new economic security challenges. In traditional international relations thinking, e.g., Strassler (1996, 5.88, Book Five) or Waltz (1979, p. 72, Ch. 4) small states are price-takers and are not typically studied for how they might change the global environment. With the disruption of multilateralism, however, it is small states that see greatest incentive to affect cross-national outcomes, if not for the whole world then at least for themselves. They can do this either regionally or plurilaterally, while also making sure to be shielded

	1990	2023
Contribution to global growth	1/4	2/3
GDP per capita (USD 1k)	1.6	9.1
GDP (USD tn)	5.5	40
Population (bn)	3.2	4.4
Working age (bn)	2.0	2.8
Employment (bn)	1.6	2.2
Extreme poverty	52%	6.5%
Life expectancy (years)	66	75
Adult literacy	71%	91%

Table 1: Asia's successes. Source: Author's calculations from IMF, World Bank WDI, UNESCO, ILO

as much as possible from geopolitical disruption elsewhere. It is useful, therefore, to consider the strategies available to Asia's individual nation states to navigate the new disrupted international system. The economic giants China and India are, in this regard, not representative of Asia's agency and influence (and it might in any case remain debatable how close China and India are to hegemonic power). Section 4 considers small-state strategies of alignment, acquiescence, and adaptation and mitigation.

Section 5 concludes.

Technical details appear in an Appendix, Section 6.

2 Asia's Remarkable and Unexpected Success

Asia's striking rise in the global economy occurred at a time in world history when economic policy-making and geopolitical analysis aligned to advance ideas of economic efficiency, comparative advantage, and political convergence (Armstrong and Quah, 2026; Quah, 2026b). While the consensus on those ideas was close to global, their application was much further from universal. Asia's success, therefore, has been both remarkable and surprising.

Table 1 shows that a generation ago, in 1990, Asia's contribution to global economic growth was one quarter; by 2023, that contribution had

more than doubled to two thirds. In this time, inflation-adjusted per capita GDP grew more than five-fold, and total GDP nearly eight times. Extreme poverty—the fraction of the population living on less than one inflation-adjusted international dollar—fell from over half to one sixteenth. Life expectancy at birth rose a full decade. Adult literacy increased by twenty percentage points.

2.1 Asia's success is varied because Asia is diverse in systemic essentials

Even at this aggregate level, however, some incipient risks are already observable. The working-age population increased from 2bn to 2.8bn, but employment rose by less, from 1.6bn to 2.2bn—so that growth and development failed to increase the fraction of the population that is the working aged but not in work.

This jobs-demography mismatch is exacerbated when the analysis unpacks Asia's individual nation states. Across Asia, the dependency ratio—the ratio of the population not of working age, i.e., younger than 16 or older than 65, to that that is working-age—has been constant at approximately 36–37% over the past three decades. But this constancy hides a sharp disparity. This author's calculations based on data from UNESCO, UN World Population publications, and the ILO show how some of Asia's smallest states and those in Asia's northeast are undergoing sharply rising dependency ratios and falling fertility rates. In Singapore, the people aged 65 or older were 13% of the total population in 2015. By 2025, that fraction had risen to 21 and will reach 25% by 2030. Korea in 2025 had its 65+ population 20% of the total (the same as Singapore's) but that ratio is projected to be 34% by 2040 and 40% by 2070. Japan in 2025 had that ratio already at 28% and a median age in the population of 50. China's 65+ population was 7% in 2000 but by 2025 had reached 16%.

That Asia's overall dependency ratio has remained constant for the past three decades in light of this demographic trend reflects how other parts of Asia have young and growing populations. But this presents an opposite challenge. India, which has a young and growing population, has seen a demographic bulge of approximately 500mn in its working age population since 1990. But this change has not been matched by an increase in jobs. India's total employment over this same time period has grown by only

	Median	Ratio	Top 10%
Asia-Pacific			
1990	19	4.2	71%
2023	30	3.5	77%
World			
1990	4.5	6.0	75%
2023	9.5	4.3	73%

Table 2: Population across nation states. Asia is many small states; the world, even more so. **Median** denotes population in millions; **Ratio** is the mean-median ratio, a standard measure of inequality; **Top 10%** denotes population share of the top tenth of the cross-section of nations. Source: Author's calculations from UN *World Population Prospects*

286mn, i.e., just under 60% of the growth in working age population.

Regional mismatch between jobs and demography exacerbates Asia's development challenge. But even if productivity were not adversely affected and populations were able to frictionlessly reallocate across national borders, Asia's long-run population trends, calibrated to current measurements of population dynamics, would imply a steady-state decline of 7.5% in levels relative to trend.¹ More likely, productivity trends will slow and populations will be unable to move freely across Asia: thus, the 7.5% decline should be viewed as just a lower bound. The actual impact will probably be larger.

2.2 Asia is large. But Asia is also small.

Table 2 further documents the marked population heterogeneity in the cross section of Asia's economies. Considerable policy attention of course appropriately focuses on the economic transformations in China and India. But billion-people nations are rare. In 2023 the median Asian nation had only 30mn people in it: half of Asia's nation states have populations only the size of Malaysia or smaller. Nearly 80% of Asia's population is contained in the top 10% of most populous Asian nations, so the left tail of the

¹Section 6 derives this in a model of McKendrick-von Foerster distribution dynamics. Two assumptions are critical: that the ageing population does not adversely influence productivity trends, and that reallocation across Asia's labour markets is frictionless.

Correlation	1990	2023
Asia-Pacific	-0.45	-0.20
World	-0.30	-0.07

Table 3: Asia and the World — The dynamic effects of size. The correlations are between population and GDP per capita measured at market exchange rates. Asia's smaller states used to be, on average, richer relative to large economies. This size effect held as well for the world as a whole but was stronger in Asia. In 1990, large economies like China, India, Indonesia, Bangladesh, Pakistan and Nigeria were poor; smaller states like Singapore, Brunei, New Zealand, Switzerland, Sweden, and the Gulf states, richer. Over time, however, Asia's giants—China and India—pulled ahead, reducing the negative correlation between size and economics in both Asia and the world. While the negative correlation remains in Asia, even if at half its original magnitude, across the world the correlation has practically vanished. Source: Author's calculations from IMF WEO, World Bank, and UN World Population Prospects

distribution is long, with the mean-median ratio—a standard measure of inequality—equal to 3.5. This 2023 Asian mean-median ratio is already a decline from the 1990 value of 4.0. Interestingly, the world as a whole is even more skewed towards small states: the bottom half of Table 2 shows the same calculations across the entire world. Compared to Asia, the world's median nation is smaller, and population inequality is higher. A similarly high fraction of the total population is crowded into the top 10% of nations.

Table 3 shows the correlation between population size and economic performance across Asia and across the world. Historically, in Asia smaller states were more successful than larger economies. China, India, Indonesia, Pakistan and Bangladesh were poor; Singapore, Brunei, and New Zealand, richer. Over time, this negative relationship weakened as China, Indonesia, and Vietnam grew rapidly, and, most recently, India as well, adding to the group of larger, rich economies like Japan and South Korea. Asia moved from a region where large economies were mostly poor to now one where large economies are richer.

Across the world too smaller economies were once more successful. The US is an outlier in being both populous and rich. But again just as in Asia, the rise of larger economies means that the historical negative correlation between size and economic performance has, in effect, vanished.

If this dynamic continues, will Asia's smaller states face the risk of being

left behind? In economic reasoning, many reasons predict large economies to be more successful: increasing returns to scale, specialisation and diversification, complexity in industry, the ability to do research and development at scale, and thus advance technology.

In contrast, small states have only limited populations and thus smaller workforces. Given the nature of modern production, small states will invariably end up producing too much of what their people can and not enough of what their people need. In such circumstances, cross-border trade becomes more important than ever. Large economies can contemplate economic isolation if international circumstances compel—they will be poorer at the margin as a result but they can continue to operate. Small states, on the other hand, succeed when they can successfully navigate an international environment, both economically and geopolitically.

2.3 Asia and world order: Rules-based multilateralism

The dynamics in Tables 2–3 can be succinctly re-stated. In the modern era, all of Asia used to be small states. This was because of one or both of two different reasons: Either people were poor and so markets were small, or populations were low (and therefore again markets small), or both. All of Asia's economies who eventually grew, however, did so by learning to trade internationally, thereby escaping the limitations of size. While larger economies can leverage economies of scale, diversity and specialisation, and technology, Asia's small states structurally remain dependent on the international system that has been in place for most of the period since the Second World War: an open global economy with clear rules that, while according smaller states or Asia's economies no special advantage, also did not go out of its way to punish them. In general, small states find it harder to self-insure and obviously cannot project coercive power. Prosperity and stability are, therefore, predicated on the predictability of the rules-based international order.

That international system has become less hospitable both to cross-border trade and to smaller states. But what are the drivers of that change? How can Asia's smaller states best navigate such disruption?

3 The Three-Shock Challenge

The international system that operated for most of the eight decades of the post-War era—and under which Asia achieved the development successes described in Section 2—carried a number of specific attributes: the system was a rules-based order organised around multilateralism, centered on US unipolarity and thus hegemony, and bearing liberal norms and values.

The system was never perfect. The US acted as benevolent hegemon but now and then, without asking for either permission before or forgiveness after, would undertake actions that broke the rules. Some nations reckoned the system worked against them and favoured others, but no promise was ever made that the system would right historical wrongs or achieve egalitarian outcomes. And even as major powers said they were actively providing global public goods, in many instances, what they got out of the system was at least as significant as what they put in. But, overall, post-War circumstances were such that forward-looking, self-seeking behaviour would, most of the time, coincide with global citizenship and systemic public-spiritedness. This international system worked, eventually developing further manifestations in globalisation, an international monetary and financial system, and global institutions that served as rules-repositories and arbiters.

This paper takes as given the view that the international system has transmogrified from benevolent hegemony to one that now supplies lessened global public goods, repudiates rules-based order in favour of the exercise of power, and sees greater unilateral actions without multilateral consensus. Trade has become contestation over chokepoints and balance of payments, rather than competition over productivity. Over 70% of world trade might follow still World Trade Organisation multilateral rules, but since 2019 disruptions to trade imposed by individual nations have risen more than three-fold (Georgieva, 2023). The single-platform model of the international monetary system is no longer just a pathway to improved efficiency and scale economies in providing global insurance, but has instead become a weapon for geopolitical sanction.²

²Different descriptions of these changes are available, especially in the International Relations and policy scholarship literature: G. J. Ikenberry (2026) provides a valuable summary. Recent accounts in economics include, among others, Armstrong and Quah (2026), Clayton, Maggiori, and Schreger (2026c), Gopinath, Gourinchas, Presbitero, and

For this paper, as Section 2 suggests, three key features of the old order will matter for Asia: (1) a level playing field for engagement and exchange; (2) peaceful dispute resolution; and (3) a norm of cooperation when faced with common challenges. Call these the core of multilateralism, or the **multilateralism-3**. It is the withdrawal of these from the international environment that poses the greatest risk for Asia's smaller states. For those states to best respond, it is useful to identify the shocks that are causing this disruption of the multilateralism-3.

This paper hypothesises that three major distinct but interacting shocks have mattered importantly as proximate causes: the **China Shock**; the **US Shock**; and the **Multilateralism Shock**. Consider these in turn.

3.1 The China Shock: Scale, Speed, and Competition

It has long been recognised that while cross-border trade generates mutual gains at the national level—via the logic of comparative advantage—nonetheless, within any given economy, relative winners and losers can emerge. Win-win internationally does not guarantee win-win domestically. Analysis of trade and inequality is built on exactly this idea. Indeed, if cross-border trade is to have any effect, it can do so only by altering the vector of relative prices. But any variation in that price vector must mean that some factor of production sees prices move against it: relative price cannot increase for every commodity.

When production factors and workers can frictionlessly shift workplace and employment—out of those sectors where relative prices have fallen and into those where the opposite has occurred—the gains from cross-border trade are magnified. When they cannot, however, unemployment and economic stagnation arise in those sectors adversely affected, even as those that benefit gain in economic performance. How widespread the negative effects emerge as equilibrium outcomes and how long they persist depends, not just on the local geography and pace of domestic adjustment, but also on the scale and speed of productivity improvements in the competing imports.

When these dynamics were observed in the US, they became known as the China Shock (Autor, Dorn, and Hanson, 2013; Kennedy and Mazzocco,

Topalova (2025), Mattoo, Ruta, and Staiger (2025), Posen (2025), and Quah (2026a,c,d).

2022). There is nothing special about the US in this narrative, however, so nations and policymakers elsewhere have now adopted the same language.

Critical to note in this is that reactions to the China Shock are not overturned by re-asserting the benefits of comparative advantage. The problem rests in a combination of the effectiveness of the exporter nation (China) and economic adjustment mechanisms at work in the importer (the US, Indonesia, EU, and wherever else the China Shock narrative has emerged). The China Shock is not inconsistent with economists' understanding of comparative advantage.

Empirical studies of the China Shock typically use as causal variable the quantity of imports from China and thereafter naturally focus, in effect, on the balance of trade as key indicator. Such reasoning makes for overlap with analyses in international macroeconomics where current account surpluses and deficits are caused directly by aggregate savings and consumption decisions, rather than productivity and competition (Gourinchas, Pazarbasioglu, Srinivasan, and Valdes, 2024). However, the description given above on the China Shock does not mention trade balance accounts at all. The driver for the China Shock is a change in relative prices. The reasoning is agnostic on how much that relative price change ends up simultaneously moving the current account balance.

From the standpoint of other nations the China Shock is a supply shock, and so best responses will treat it that way. Beyond suggesting that the policy focus should be on prices, not quantities, and thus that the current account balance is potentially a red herring, the reasoning provides a further key policy implication. When confronted with a China Shock, actions that seek to contain the exporter nation or degrade that trading partner's economic performance cannot be unambiguously good or bad for domestic well-being. Instead, policymaking needs to calibrate the distributional tradeoff in low import prices being beneficial for consumers and downstream domestic industries, while, at the same time, being detrimental for firms and workers in directly competing sectors.

3.2 The US Shock: National Security and Hegemonic Power

The China Shock might be viewed as the inadvertent consequence of an exporter nation's pursuit for increased productivity and profits. In the field of international relations, such an interpretation accords the China Shock

as akin to a large nation “having sharp elbows”. In contrast, the disturbance now considered, the US Shock, is an exercise in **economic statecraft** or **geo-economics**.³ Unlike shocks such as tsunamis, earthquakes, or floods, which are natural-event risks, the US Shock comes with intentionality.⁴

At the end of the Second World War, the US began to build an international system that G. J. Ikenberry (2026) calls the Liberal International Order. That order was rules-based, founded on international law and multilateral principles, coordinated by international institutions, and helmed in a unipolar but benevolent way by the planet’s most powerful nation, the US.

In its broad contours such a system can be interpreted as conforming to the principles of Hegemonic Stability Theory (Kindleberger, 1996), i.e., that the world is more stable when a benevolent hegemon looks after it. In the event the hegemon served as consumer and banker of last resort, security officer to the world, issuer of the world’s reserve currency, and supporter of the international architecture of multilateralism. It warned the rest of the world about and took action against revisionist nations who sought to undermine the rules-based multilateral order. It provided global public goods. It took leadership in all those activities that the economics of increasing returns to scale suggests, for efficiency, should be concentrated in a single agent.

However, as that rules-based multilateral order succeeded and opened

³Contrary to common belief, “geo-economics” (e.g., Baldwin, 1985; Blackwill and Harris, 2016) does not mean the economic counterpart of the larger and more encompassing term “geopolitics”. Both here and in scholarship more generally, geo-economics focuses on a hegemon’s decision-making and means “the use of economic instruments to accomplish geopolitical objectives” (Blackwill and Harris, 2016). Thus, geo-economics is the study of how a hegemon optimally achieves its geopolitical goals using economic tools (“a means of working the US’s geopolitical will in the world” (Blackwill and Harris, 2016, p. 99)) and, appropriately, is also called economic statecraft. In this, geo-economics is subordinate to geopolitics, *not* its economic counterpart. See also fn. 5.

⁴Modern technical versions of geo-economics (e.g., Clayton, Maggiori, and Schreger, 2026a,c) correctly continue that precision when they study how a hegemon shapes the decisions of foreign entities and thereby exercises and advances its hegemonic power. By contrast, the focus in this Section and the rest of the paper is how smaller nations organise themselves *against* hegemonic power. Of these two sets of actions, only the first is geo-economics, while both, together with the general equilibrium outcomes of such interactions, make up an international economics of strategic interdependence. Again, see also fn. 5.

up economic opportunities for perimeter nations, so too the world's income distribution across nations flattened. In the 1950s the US accounted for 40% of the global economy; that share has since declined to 25%. The US is no longer as dominant, and unipolarity is now multipolarity. That prosperity both grew in totality and became more equally spread improved humanity's well-being. But it also meant that, for the hegemon, the cost-benefit ratio in supporting the multilateral system began to turn unfavourable (Gaspar, Hagan, and Obstfeld, 2018; Quah, 2026c).

While the direction of motion is as predicted, what has been a surprise is the elasticity of the hegemon's response to this turnaround. In the outturn the hegemon did not just retreat from its historical stance of supporting rules-based multilateralism, it has actively sought to re-wire the international system to its own benefit. From the 2010s on, the US transmogrified from benevolent hegemon to bad actor, or, as Posen (2025, p. 28) wrote, from "global insurer to extractor of profit". The guardian of the international system became revisionist, and sought to exercise a "might makes right" approach to foreign policy.

This momentum has resulted in a raft of US actions in the form of tariffs, sanctions, extra-territorial interventions, and withdrawals from historical agreements. At the same time that the hegemon has sought to become more isolationist and focused on its own continental landmass, it has also projected power abroad in interventions that contravene principles of national sovereignty and territorial integrity.

In contrast to more conventional narratives on the US's geopolitical actions, the account just given focuses on the hegemon's place in the world, rather than US-China geostrategic rivalry. That last is no doubt consequential. But the hegemon's tariff and trade actions do not act exclusively just China, but against many other countries that the US administration judges to have misbehaved against America. The US Shock thus stems from America's relationship with the entire world, not just against China. A Cold War type model for US-China rivalry, therefore, likely obscures more than it clarifies. There are no longer ideological separating hyperplanes in America's geostrategic confrontation. By contrast, in the Cold War, citizens on both sides understood how victory by the opposing bloc would fundamentally transform their societies. No such issues are now at stake. For Asia's states that are not front-line in that binary confrontation, many other challenges should take priority.

Where US-China rivalry does matter is not its substance, but its effect on behaviour. In the US, geostrategic competition lends itself to heightened attention on national security. Such a fraught political atmosphere makes it easier to mount yet more aggressive economic statecraft, whether or not economically justified. Moreover, under national security imperatives, economic statecraft will no longer target traditional domains of economic competition. Major powers will then look not to improving productivity relative to their opponents but instead to securing chokepoints against them. This transforms competition that can potentially improve everyone's well-being to contestation that produces lose-lose Prisoner's Dilemma or Epic Fail outcomes (Armstrong and Quah, 2026).

What then are the policy implications for Asia's smaller states? In the narrow sense of tariffs and sanctions restricting markets, the US Shock can be viewed as a demand shock, the same way that the China Shock is a supply shock. But, arguably, the more critical conclusion is that this US Shock is driven by long-run trends, not vagaries of whoever leads the current administration. Asia's states need to take into account that this demand shock is unlike those hypothesised in the study of business cycles. The US Shock is instead a long-lived demand shock.

3.3 The Multilateralism Shock: Cost-Benefit Calculation for Global Leadership

The cost-benefit calculations for the US apply similarly to other advanced-economy major powers, and indeed for all those nations who consider themselves middle powers.

In the early years of rules-based multilateralism the US held an overwhelming unipolarity that made it easy for (implied a cost-benefit ratio allowing) it to support the system, or as G. Ikenberry (2005) wrote, to be "a producer of world order".

When other states ascend to become the power that produces world order, will their calculations differ? Optimistic observers suggest that middle powers will come into the role with less ideological baggage and more vivid memories of what the rules-based multilateral order can deliver. Nonetheless, the basic economic calculation will still hold. Like ascending dominoes, each replacing the one before it, the cost-benefit logic will apply, so that no permanently-sustained rules-based multilateral order requiring hegemony

resources will be possible in the long run.

These partial equilibrium actions on the part of major powers weaken the supply side provision of public goods. At the same time the multilateral system is experiencing heightened demand for solutions. The most urgent problems affecting the world have become increasingly global in nature—among the most pressing of these are climate change, pandemics, and financial instability. These challenges cannot be addressed by unilateral national action but call for multilateral cooperation. The rising gap between demand and supply in the multilateral system creates yet further stress for small states.

4 Navigating the International Economics of Strategic Interdependence

How should Asia's small states respond to these emerging challenges? Historically, optimal strategies have successfully drawn on traditional thinking to build economic security: since small states are internationally price- and norm-takers, they respond best to economic disruption through domestic reforms to raise productivity, become more essential and indispensable in international engagement, and improving economic efficiency through the comparative advantage mechanism in open trade.

However, in a world dominated by China, US, and Multilateralism Shocks, traditional strategies can have adverse unintended consequences. Trade openness will suffer from increased foreign supply alongside reduced foreign demand and, therefore, potentially raise unemployment and heighten domestic dissent. Price- and norm-taking can lead to major powers taking advantage of the small state with no way to respond. Heightened productivity and increased indispensability can give bad actors greater incentive to extract profit from or intrude extra-territorially into the small state.

Neither is it clear that doing the opposite of traditional strategies achieves the right outcome. A small state might think that if it does not take prices as given, then it should apply tit-for-tat tariffs. But that leads to a downward spiral of tariffs rising but no positive effects on increased demand for domestic production. Without laying groundwork but only bluntly rejecting the norms of a potentially antagonistic major power might lead to punishment economic statecraft. A small state might think the alterna-

tive to trade openness is autarky. But the small state will quickly find that it cannot diversify sufficiently, the way that a large economy can, and it will soon realize that autarkic restrictions excessively constrain its own consumption possibilities.

4.1 A basic toolkit for economic diplomacy: **Align. Acquiesce. Adapt and mitigate**

How then should small economies navigate this landscape and will be the outcome of their actions? Call this the international economics of strategic interdependence.⁵

To improve on the stark binaries implied by traditional strategies, the small state can consider a mix of alignment, acquiescence, and adaptation and mitigation. Alignment means a smaller state taking sides, or more generally, accepting the bundles of attributes—trade and technology, say—offered by a Great Power. Acquiescence means taking actions to placate major powers, in an effort to stabilize the international space available to the smaller state. Adaptation and mitigation seek to, respectively, minimise the symptoms and treat the causes of major power disruption.

Alignment alone is potentially optimal if the world were zero-sum. For Southeast Asia Khong and Liow (2025) describe how individual small states are aligning in US-China rivalry. As explained in Section 3 what matters is not exactly the substance of the rivalry but the behaviours that it produces. Khong and Liow (2025) find that, except for Vietnam, all Southeast Asia's

⁵In the view taken in this paper, it is this—the international economics of strategic interdependences—not geoeconomics that is the counterpart of geopolitics. Strategic interdependence refers to general equilibrium systemic observable consequences for the international economy that go beyond defensive or offensive single-agent decision-making strategies in geoeconomics. Examples of such potential implications include: What are the operating characteristics of a leaderless world order? How should lesser powers respond when the hegemon turns from being provider of public goods to, instead, extractor of economic surplus? When should smaller states band together in flexible coalitions for economic security, whether it be to guard against risks that are natural events or threats intentionally inflicted by major powers? To emphasise the point, Clayton, Maggiori, and Schreger (2026b) is an analysis that seeks equilibrium systemic predictions and thus goes beyond geoeconomics. It does so by bringing into the model the actions of smaller nations set against the hegemon's economic statecraft. Those smaller nations, however, act non-cooperatively, in contrast to some of the multilateral strategies considered in what follows. See also fns. 3–4.

4 NAVIGATING THE INTERNATIONAL ECONOMICS OF STRATEGIC INTERDEPENDENCE

states have grown over the past three decades to align more closely with China.

Outside a zero-sum environment, however, small states should reject the binary choice of alignment. They should develop instead a portfolio of relationships. Time horizons for great powers and small states will not necessarily coincide. A great power might seek alignment that is longer-term, as that allows it to then organize and consolidate a sphere of influence. Small states, on the hand, might look to align only opportunistically to address a specific challenge, and then seek to move on to the next problem. In certain issue domains—green and renewable energy development, say—one interlocutor state will provide stronger opportunity, but in others—perhaps governance standards on AI and digital technology—yet a different partner state will be important. Asia’s states can deepen ties with regional bodies such as ASEAN to build a diversified dynamic network of linkages.

From the Multilateralism Shock, universal multilateralism has stalled. But smaller groups can work on recovering at least a rules-based Multilateral-3 order. The new order does not have to be fully multilateral, but just multilateral-enough. If the order is not large and sprawling, it does not need a full hegemonic leader. Instead of a G7 or G2-structured world order, the new system can comprise G-minus groupings.

Asia’s small states can work in plurilateral networks to identify and collaborate on specific areas such as sustainable finance, digital governance, regionally-focused supply chains. Small states can leverage specialized expertise to help shape standards in, for instance, financial clearing and settlement systems (such as Project mBridge or Project Nexus). Such knowledge and technological advances do not draw on increasing returns to scale, and so small states are just as capable as large ones.

To manage strategic interdependence across economies, a sophisticated layered approach can be developed in economic diplomacy, defined as economic statecraft for small states. The first layer might well be alignment, qualified as described earlier. A second layer could be acquiescence—temporarily accepting necessary constraints, thus creating space for longer-term recalibration. Finally, the third layer of adaptation and mitigation draws inspiration from the global climate crisis. Relative to environmental change, all states are small. But at the same time, for the global climate crisis, states can adapt, i.e., build resilience by treating the symptoms of environmental change (move populations to less fragile areas, change

agricultural practice), and they can mitigate, i.e., address the causes of environmental change (lower carbon footprint, shift energy usage from hydrocarbons to renewables). So too for managing strategic interdependence, small states should make their internal economic structures more resilient to great power actions, and reduce great power exposure by organising appropriate regional or plurilateral groupings. Economic relationships can be re-wired to build in redundancy and resilience, diversifying supply chains away from known chokepoints and single points of failure—even if doing so entails loss of economic efficiency.

To summarise the range of proposals considered here, Asia’s small states can move towards what in the language of Quah (2026a,c) is an incentive-compatible, G-minus, multilateral-enough order. Small states have to undertake this not because the features of G-minus and multilateral-enough are aspirational, but because the original rules-based multilateral order is not incentive-compatible: major powers see no incentive in continuing to support such a system in the longer term.

5 Conclusion

Asia’s growth and development has, in the past eight decades, been remarkable and unexpected. That trajectory has been marked by an evolving set of differentiated arcs traced out by states of varying size. But small-state progress—on which a large part of Asia’s success has been founded—is now at risk from the shift in world order, from one of rules-based, multilateral openness to now one of strategic interdependence.

Asia’s states now need to move away from small-state passivity of price- and norm-taking while focusing only on building domestic resilience and strengthening supply. While continuing to strengthen their domestic core, small states now need to exercise a proactive approach in economic diplomacy, building on strategies of alignment, acquiescence, and adaptation and mitigation. By building incentive-compatible, G-minus, multilateral-enough diversified groupings, Asia’s small states can continue to navigate a new international landscape of strategic interdependence.

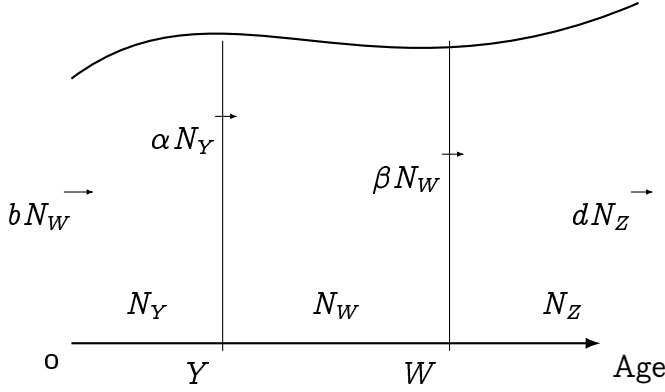


Figure 1: Demographic transition and McKendrick-von Foerster distribution dynamics

6 Technical Appendix

This technical appendix presents a simple, back-of-the-envelope calibration that shows a 17% decline in steady-state levels of per capita GDP across Asia if current demographic trends continue.

Depict an economy's demography by Fig. 1, with the horizontal axis denoting age. Two threshold values Y and W on this axis are significant: with $0 < Y < W$, the value Y is the upper age limit of the young before they commence work, while the value W is the upper age limit of the working population before they retire. Denote the populations of each of the three age categories separated by Y and W as N_Y , N_W , and N_Z , respectively.

Let positive constants b and d denote birth- and death-rates based on working-age N_W and aged N_Z populations, respectively. The input flow into N_Y is then $b \times N_W$ while the output flow out of N_Z is $d \times N_Z$.

At the same time, however, there are output flows out of each of N_Y and N_W into the next higher age category at a constant rate: everyone ages a year every 12 months. Define the uniform densities $\alpha \stackrel{\text{def}}{=} (Y - 0)^{-1} = Y^{-1}$ and $\beta \stackrel{\text{def}}{=} (W - Y)^{-1}$ and write these output flows as αN_Y and βN_W respectively. These are, simultaneously, input into and output out of working age. Collecting these results, net flow for the young N_Y is $bN_W - \alpha N_Y$; for the working age, $\alpha N_Y - \beta N_W$; and for the aged, $\beta N_W - dN_Z$.

Table 4 summarises the demographic transition as McKendrick-von Fo-

	age x	number	net flows
Young	$x \leq Y$	N_Y	$bN_W - \alpha N_Y$
Working	$Y < x \leq W$	N_W	$\alpha N_Y - \beta N_W$
Aged	$W < x$	N_Z	$\beta N_W - dN_Z$

Table 4: Summary of demographic transition and McKendrick-von Foerster distribution dynamics

erster distribution dynamics. Next, define working-age weighted versions

$$r \stackrel{\text{def}}{=} (N_Y + N_Z)/N_W$$

$$y \stackrel{\text{def}}{=} N_Y/N_W, \quad z \stackrel{\text{def}}{=} N_Z/N_W,$$

with r recognised as the dependency ratio. Differentiate with respect to time to obtain the dynamics of working-age weighted ratios:

$$\begin{aligned} \dot{r} &= \dot{y} + \dot{z} \\ \dot{y} &= b - (\alpha - \beta)y - \alpha y^2 \\ \dot{z} &= \beta - (d - \beta)z - \alpha yz \end{aligned}$$

If θ is underlying average productivity then measured GDP per capita is

$$\frac{\theta N_W}{N_Y + N_W + N_Z} = (1 + r)^{-1} \theta.$$

Even if productivity θ is unaffected, higher dependency ratios will dilute per capita GDP, from a combination of there being fewer working-age workers and more dependents.

In steady state, net flows are zero for both the young and aged, so that $y^* = b/\alpha$ and $z^* = \beta/d$, and therefore

$$r^* = y^* + z^* = \frac{b}{\alpha} + \frac{\beta}{d} \quad \text{in steady state.}$$

Asia's demography is obviously not yet in steady state. But the r^* equation nonetheless correctly flags the forces at work. A low birthrate b lowers the immediate youth dependency ratio. But, over time, coupled with falling old-age mortality d , increases the overall dependency ratio r^* .

Next, draw on data from OECD, World Bank, and UN to calibrate the model. Measured total fertility rates (TFRs) across Asia are on the order of

1.5–1.7; these suggest an approximate Asian birthrate $b = 0.018$. Old age mortality is approximately 10%. Finally, the standard IMF/World Bank convention gives $\alpha = 0.067$ and $\beta = 0.02$. These imply steady state values $y^* = 0.27$ and $z^* = 0.20$, and therefore a steady-state dependency ratio $r^* = 0.47$. Comparing this to the current dependency ratio of 0.36 means that at a fixed average productivity, per capita GDP will be lower by 7.5% in steady state.

In developed economies a typical business cycle might change GDP by 3–4% over a duration of two years or less, so a permanent level change of twice that is considerable. As with economic fluctuations, moreover, some parts of the cross-section will feel this more strongly than others. The 7.5% decline is what would occur if the demographic decline were adjusted by having people reallocate frictionlessly across the different nations of Asia. In reality, labour mobility is much less, so that value of 7.5% should be viewed as the lower bound for those economies most affected by an ageing population.

References

- Armstrong, Shiro and Danny Quah (2026). “[Economics for the Global Economic Order: The Tragedy of Epic Fail Equilibria](#)”. *Globalisation and the Economics, Technology, and Security Nexus*. Ed. by Shiro Armstrong and Yves Tiberghien. Canberra: ANU Press. Chap. 6, pp. 00–00.
- Autor, David, David Dorn, and Gordon Hanson (Nov. 2013). “The China Syndrome: Local Labour Market Effects of Import Competition in the United States”. *American Economic Review* 103.6, pp. 2121–2168.
- Baldwin, David A. (1985). *Economic Statecraft*. Princeton: Princeton University Press.
- Blackwill, Robert D. and Jennifer M. Harris (Mar. 2016). “The Lost Art of Economic Statecraft”. *Foreign Affairs* 95.2, pp. 99–110.
- Clayton, Christopher, Matteo Maggiori, and Jesse Schreger (Jan. 2026a). “A Framework for Geoeconomics”. *Econometrica* 94.1, pp. 105–136.
- (Mar. 2026b). *A Theory of Economic Coercion and Fragmentation*. Working Paper. New Haven: Yale University.

- Clayton, Christopher, Matteo Maggiori, and Jesse Schreger (2026c). “Putting Economics Back into Geoeconomics”. *NBER Macroeconomics Annual*. Ch. 2, pp. 23–87.
- Gaspar, Vitor, Sean Hagan, and Maurice Obstfeld (Sept. 2018). “[Steering the World Toward More Cooperation, Not Less.](#)” *IMF Blog*.
- Georgieva, Kristalina (Sept. 2023). “[The Price of Fragmentation](#)”. *Foreign Affairs* 102.5, pp. 131–142.
- Gopinath, Gita, Pierre-Olivier Gourinchas, Andrea Presbitero, and Petia Topalova (Jan. 2025). “Changing global linkages: A new Cold War?” *Journal of International Economics*, p. 104042.
- Gourinchas, Pierre-Olivier, Ceyla Pazarbasioglu, Krishna Srinivasan, and Rodrigo Valdes (Sept. 2024). “[Trade Balances in China and the US Are Largely Driven by Domestic Macro Forces](#)”. *IMF Blog*.
- Ikenberry, G. J. (May 2005). “[Power and Liberal Order: America’s Post-war World Order in Transition](#)”. *International Relations of the Asia-Pacific* 5.2, pp. 133–152.
- Ikenberry, G. John (Apr. 2026). *Why the Liberal International Order Will Rise Again*. Working Paper. Princeton: Princeton University.
- Kennedy, Scott and Ilaria Mazzocco (Oct. 2022). *The China Shock: Reevaluating the Debate*. Working Paper. Washington DC: Big Data China, Center for Strategic and International Studies.
- Khong, Yuen-Foong and Joseph Liow (July 2025). “[Southeast Asia Is Starting to Choose](#)”. *Foreign Affairs* 104.4, pp. 151–161.
- Kindleberger, Charles P. (1996). *World Economic Primacy 1500-1990*. Oxford: Oxford University Press.
- Mattoo, Aaditya, Michele Ruta, and Robert Staiger (July 2025). *Geopolitics and the World Trading System*. Working Paper. Washington DC: World Bank.
- Posen, Adam (Sept. 2025). “[The New Economic Geography](#)”. *Foreign Affairs* 104.5, pp. 26–43.
- Quah, Danny (Mar. 2026a). “[Third Nations Can Piece Together a Ruptured World Order](#)”. *East Asia Forum*.
- (2026b). “[Correlated Trade and Geopolitics Driving a Fractured World Order](#)”. *The New Global Economic Order*. Ed. by Lili Yan Ing and Dani Rodrik. New York: Routledge, pp. 54–66.

REFERENCES

- Quah, Danny (Apr. 2026c). *The Rest of Us: Incentives, not Power, in Rebuilding World Order*. Working Paper. Singapore: Lee Kuan Yew School of Public Policy.
- (May 2026d). *How Is Changing a USD-dominant IMS Harder Than Changing World Order?* Working Paper. Singapore: Lee Kuan Yew School of Public Policy.
- Strassler, Robert B., ed. (1996). *The Landmark Thucydides*. New York: Free Press, Simon and Schuster, Inc.
- Waltz, Kenneth N. (1979). *Theory of International Politics*. Reading: Addison-Wesley.