

Economic Statecraft and Asia's Role in the World Economy: The Simple Arithmetic of Large Challenges

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Conclusion

1. Asia's historical role in the global economy
 - Demography. Asia's giants vs small states
 - Retreat of multilateralism
 2. 2-shocks disruption
 - The China Shock. The US Shock.
 - Advanced-economy retreat from multilateralism
 3. Economic statecraft for small states; economic diplomacy
 - Thucydides price-taking
 - Align. Acquiesce. Adapt and mitigate.
- Demographic correction in McKendrik-von Foerster distribution dynamics. Aggregate demand and supply shocks. Strategic economic statecraft

Asia's historical role in the global economy

Asia's remarkable and unexpected success

	1990	2023
GDP per capita (USD 1k)	1.6	9.1
Contribution to global growth	1/4	2/3
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	66	75
Literacy	71%	91%

Table 1: Source: Author's calculations from IMF, World Bank WDI, UNESCO, UN World Population, ILO

- Despite 1997, 2003, 2008, 2020, ...
- GDP per capita $> 5\%$ per year
- GDP $> 7\times$
- Extreme poverty from over 1/2 to 1/16
- Literacy rise by 20 percentage points
- Life expectancy increase by a decade
- Dependency ratio constant at 36–37% ...
 - ... but sharp NE vs S
 - ... and employment faltered, so non-working working-age from 0.4bn to 0.6bn
 - India working-age population rise was $2\times$ employment's

Asia is many small states

Population	Median (mn)	Mean-Median ratio	Top 10%
Asia-Pacific 1990	19	4.2	71%
Asia-Pacific 2023	30	3.5	77%

Table 2: Asia is many small states. Source: Author's calculations from IMF WEO, UN World Population Prospects

- Small states make up most of the Asia-Pacific.
- The world as a whole even more so, with 1990 mean-median ratio 6 in 1990, 4.2 in 2023

Asia small states' economic prospects

Correlation	1990	2023
Population, GDP per capita	-0.45	-0.20

Table 3: Asia — The dynamic effects of size. Source: Author's calculations from IMF WEO, UN World Population Prospects

- Correlation negative, falling over time
- Some rich small economies still, but Asia's story in the modern era is that of large nations succeeding
- Hausmann complexity. Diversity. R&D. National champions through industrial policy
- Small states' "too much, too little"

Demography: McKendrick-von Foerster distribution dynamics

	age	number	net flows
Youth	$x \leq Y$	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	$\beta N_W - dN_Z$

$$\dot{y} = b - (\alpha - \beta)y - \alpha y^2$$

$$\dot{z} = \beta - (d - \beta)z - \alpha yz$$

$$\dot{R} = \dot{y} + \dot{z}$$

$$\implies R^* = \frac{b}{\alpha} + \frac{\beta}{d} \quad \text{in steady state}$$

$$0 < b, d;$$

$$0 < Y < W;$$

$$\alpha \stackrel{\text{def}}{=} Y^{-1}, \quad \beta \stackrel{\text{def}}{=} (W - Y)^{-1}$$

$$R = (N_Y + N_Z)/N_W$$

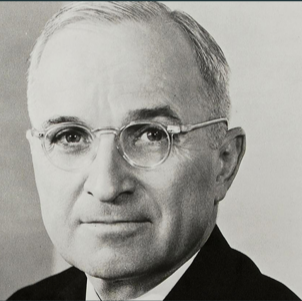
$$y \stackrel{\text{def}}{=} N_Y/N_W, \quad z \stackrel{\text{def}}{=} N_Z/N_W$$

1. $R^* = 0.47$ author's calibration from World Bank, UNIDO, OECD
2. Asia's low b, d dynamics
3. Productivity to per capita adjustment from 0.74 to 0.68

Kindleberger Hegemonic Stability Theory

“That we totally defeated our enemies and then brought them back to the community of nations. I would like to think that only America could have done this.”

33.



Multilateralism

- Level playing field
- Peaceful dispute resolution
- Cooperation

Kindleberger Hegemonic Stability Theory



"We simply cannot afford to leave China forever outside the family of nations, there to nurture its fantasies, cherish its hates, and threaten its neighbors. There is no place on this small planet for a billion of its potentially most able people to live in angry isolation."

(Richard Nixon, 1967)

"(Some will say) China is a growing threat to Taiwan and its neighbors—we shouldn't strengthen it. Or China violates labor rights and human rights—we shouldn't reward it. Or China is a dangerous proliferator—we shouldn't empower it. . . . The question is not whether we approve or disapprove of China's practices. The question is what's the smartest thing to do."

US approach to an open global economy



“ Underlying most arguments against the free market is a lack of belief in freedom itself. ”

Milton Friedman (Capitalism and Freedom)

- “failure on the part of the US, the world’s greatest trading nation, to join in setting up this organization would cause great dismay and disappointment throughout the free world at a time when the Soviet Union is stepping up its foreign economic efforts.” (Eisenhower, 1956, on OTC and GATT)
- “A vital expanding economy in the free world is a strong counter to the threat of the world Communist movement.” (JF Kennedy, 1962, on the Trade Expansion Act)

... against US protectionist instincts



- Alexander Hamilton, First Secretary of the Treasury, 1791 *Report on Manufactures to Congress*: tariffs and subsidies for the US to “shake off its economic dependency on the British Empire”
- “Give us a protective tariff, and we will have the greatest nation on earth.” (not Abraham Lincoln, 1847)
- “We renew and emphasize our allegiance to the policy of protection, as the bulwark of American industrial independence and the foundation of American development and prosperity. This true American policy taxes foreign products and encourages home industry.” (Republican Party Platform 1896)

2-shock disruption

“3 Shocks”

The Multilateralism Shock

- Level playing field; Peaceful dispute resolution; norm of cooperation
- ...vs “Might makes right”
- 2019–2022 three-fold rise in individual nation-imposed restrictions on international trade

The China Shock (Supply)

- Comparative advantage theory remains. Cost of living eased. Global South EVs
- Consumers vs business. Size, scale, speed
- Jobs, industry, middle-class communities
- Indonesia’s China imports 10% in 2003 to 40% in 2023; Thailand’s 10% to 35%

The US Shock (Demand)

- Architect turned disruptor
- Decline in unipolarity and of Kindleberger hegemonic stability
- “We’re the superpower...”

Peak Kindleberger



“American global power—military, economic, technological, cultural, political—is one of the great realities of our age. Never before has one country been so powerful or unrivaled. The United States emerged from the Cold War as the world’s only superpower and grew faster than Europe and Japan in the decade that followed. American bases and naval forces encircle the globe. ... For the first time in the modern age, the world’s most powerful state can operate on the global stage without the fear of counterbalancing competitors.

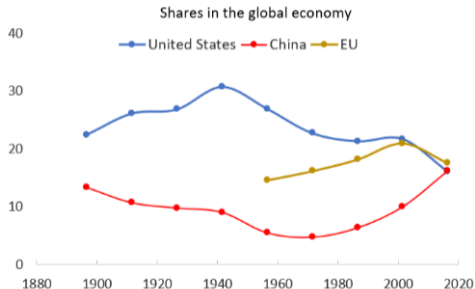
The world has entered the age of American unipolarity. (Ikenberry, 2005)”

The Multilateralism Shock

A more multi-polar world

The benefits advanced economies derive from supporting global public goods, such as international trade, are increasingly shared with other countries.

(in percent)



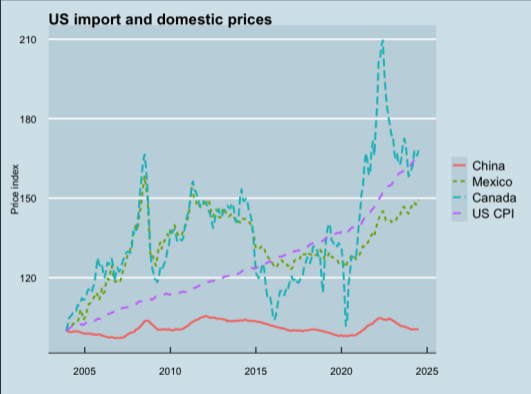
Sources: Maddison Project Database, IMF *World Economic Outlook* (April 2018); and IMF staff calculations.

Note: Each data point on the chart represents a 15-year average of the annual world GDP weights (at Purchasing Power Parity, 2011 US dollars) for each country/group in the global economy.

The success of multilateralism itself led the way ...

- Global public good
- Multilateralism's success and the unfavorable cost-benefit ratio dynamics in benevolent hegemony (IMF 2018)

China Shock



“We’re the superpower”

CNN Politics Trump Facts First CNN Polls 2024 Elections Redistricting Tracker Epstein Files Watch Listen

Trump's new US mission statement: Strength, force, power

July 4, 2024

Analysis by Stephen Collinson



President Donald Trump walks on the South Lawn after leaving the White House on January 4, 2021, in Washington, DC. (AP Photo/Chris Wedel)

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Look out, world.

One of President Donald Trump's longest-serving White House aides Monday gave the clearest explanation yet of an epochal shift in America's global role, as the administration charts a bolder course after [decapitating Venezuela's regime](#).

"We live in a world in which you can talk all you want about international niceties and everything else," deputy chief of staff Stephen Miller [told CNN's Jake Tapper](#). "But we live in a world, in the real world ... that is governed by strength, that is governed by force, that is governed by power," Miller said.

"We live in a world in which you can talk all you want about international niceties and everything else," deputy chief of staff Stephen Miller [told CNN's Jake Tapper](#). "But we live in a world, in the real world ... that is governed by strength, that is governed by force, that is governed by power," Miller said.

"These are the iron laws of the world."

Any US allies still in denial after the first wild year of Trump's second term should listen to something else Miller said. "We're a superpower. And under President Trump, we are going to conduct ourselves as a superpower."

- Sphere of influence. Varied territorial acquisition
- Liberation Day Tariffs, 180 economies
- “We’re the superpower.” MAGA. America First
- Versus reality for the American people: “Might Makes Right” does not stop just outside national borders

Economic statecraft and economic diplomacy

Model

“Great Powers do what they will. The rest of us suffer what we must.”
(Thucydides 400BCE, *The Peloponnesian War*)



$$g \in G = \{0, 1\}$$



$$s \in S = \{\dots, -1, 0, 1, \dots\}$$

Model

$$V_g(r) = \sup_{(e, n, R)} \{ U_g(e, n, R; r) + \beta V_g(r') \}$$

s. t. $r' = \phi(r, e, n, R)$.

$$V_s(R) = \max_{x \text{ in } \{l, c, m\}} \{ U_s(x; R_0, R_1) + \beta V_s(R') \}$$

s. t. $R' = R'_0 \cap R'_1$.

- Great Powers $g \in G$ compete with each other, optimizing over economic policies e , national security policies n , rules R (their “rules of the game”). Great Powers value their ranking r , which is a state variable that evolves endogenously according to law of motion ϕ .
- Small states $s \in S$ align, acquiesce, or mitigate, subject to Great Powers’ rules.

Economic Diplomacy vs Economic Statecraft

1. Thucydides and small-state agency

- Economic statecraft is a “means of working the US’s geopolitical will in the world” (Blackwill and Harris, 2016)
- Economic diplomacy for small states

2. Economic security: Maximise economic efficiency subject to calibrated risk of disruption in essential supplies from international shocks and inadequate domestic capacity

Small state strategy

Align

- Choose a side. Convex hull.
- Long-run commitment
- Optimal if the world zero-sum

Acquiesce

- Appease. Placate.
- Is the major power clear in its objectives?
Is its leader mercurial?
- Cheap-talk signalling
- Short-run stabilisation

Adapt and Mitigate

- Counterpart responses to global climate crisis
- Domestic resilience
- Plurilateral networks for inadvertent cooperation: MPIA, CPTPP, RCEP, FIT-P
- Incentive-compatible pathfinder multilateralism
- ... or, more generally, multilateral-enough G-minus


Align, acquiesce, or mitigate?

Tariffs and Trade | Tariff Tracker | Timeline | U.S.-China Relations | Deal With South Korea | U.S.-Mexico Talks | Tariff Increase on Canada

Xi Delivers Veiled Warning to Nations Not to Take the U.S.'s Side

At an Asia-Pacific summit, the Chinese leader urged countries to "resist unilateral bullying," an appeal that seemed at odds with his country's recent actions.

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President Trump and Xi Jinping, China's leader, on TV at a restaurant in Gyongju. Mr. Xi was the sole superpower leader at the Asia-Pacific Economic Cooperation summit with Mr. Trump gone. Chang W. Lee/The New York Times

By David Pearson and Berry Wang
David Pearson reported from Gyongju, South Korea, and Berry Wang from Hong Kong
Oct. 31, 2025
[简体繁体中文](#) [繁體簡體中文](#)

THE STRAITS TIMES

Global fragmentation still likely after Trump-Xi meet, but countries can act to mitigate: PM Wong

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20/27

Align (if zero-sum)

	AOCAl; CN 0, US 100		
	1995–2009	2010–2024	Δ
BN	50.3	45.1	−5.2
KH	43.1	33.2	−9.9
ID	56.1	43.7	−12.4
LA	33.3	24.9	−8.4
MY	52.1	47.3	−4.8
MM	26.4	23.6	−2.9
PH	64.1	60.4	−3.7
SG	53.6	48.1	−5.5
TH	50.6	43.7	−6.9
VN	41.1	45.2	+4.2

Pre-Trump 2.0

- **Prop** If the game is zero-sum, alignment is optimal.
- “I’m going to war. Who’s with me?!” (obviously don’t read it that way)
- China drift, under Δ : all except VN; most marked ID, KH, LA
- China drift, from above to below 50: BN, ID, MY, SG, TH
- US aligned: PH
- (Pol-Dip. Mil-Sec. Econ-Trade. Soft Power. Signalling)

Table 4: Khong-Liow (2025) Anatomy of Choice Alignment Index

Acquiesce (if positively elastic)

	Investment	Returns
VN	TL-DJT	LDT 46% to 10-15% to 20% and 40% on trans-shipments. USD1.5bn Trump family golf complex Hung Yen.
PH	FM-DJT	LDT 17% to 20%, then 19%, potentially 40% on trans-shipments. Zero tariffs and NTBs on US. Alignment with US export controls. No FTAs with “countries of concern”.
ID	DC	LDT 32% to 19%, USD34bn purchases of US energy, agricultural products, aircraft, investment in Louisiana
MY	DC	LDT 24% to 19%, but USD240bn commitment on spending and investment on US energy, aircraft, and equipment
IN	DC	LDT 26% to 25%, but then to 50% on Russia connection
KR	DC; FTA	LDT 25% to 15% plus USD350bn commitment to US “strategic projects”
JP	DC	LDT 24% to 15% plus USD550n commitment on US-directed projects

Align, acquiesce, or mitigate?

VIETNAM LAW & Legal Forum

BUSINESS

Vietnam takes swift, proactive actions in response to new US tariff policy

Tuesday 04/08/2025 - 11:11 Like 0 Share

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Listening to consultations from businesses, reducing duties on certain groups of goods imported from the US, reviewing and removing technical barriers, combating origin fraud and illegal transshipment, and increasing imports from the US are among measures Vietnam has taken in response to the US's new tariff policy.

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News Article

Vietnam's Tariffs Offer Rejected by Trump Adviser—'Not a Negotiation'

PUBLISHED APR 07, 2025 AT 08:30 AM EDT
UPDATED APR 07, 2025 AT 06:02 PM EDT



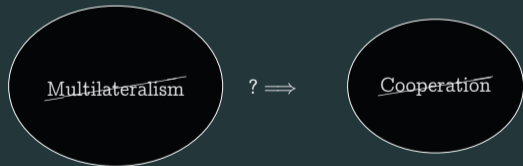
Align, acquiesce, or mitigate?



Why Vietnam Ignored Its Own Laws to Fast-Track a Trump Family Golf Complex

As President Trump blurs the lines between politics and business — and threatens steep tariffs on trade partners — governments feel compelled to favor Trump-related projects.

Mitigation with inadvertent cooperation



- EVs. Butchers. “Do the right thing, even if for the wrong reason”
- Pathfinder multilateralism: MPIA, RCEP, CPTPP, FIT-P
- Spaghetti. Multilateral-enough G-minus

Conclusion

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