

An LKYSPP Economic Diplomacy Initiative

by
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This writeup describes justification and work program for a potential new economics initiative at the Lee Kuan Yew School of Public Policy, organized around Economic Diplomacy (or, alternatively, “Economic statecraft for small states”).

1 Introduction

Small states that are economically open are now heading into an international environment profoundly different from that they have faced in the recent past. World order is increasingly tentative, contested, and subject to ever greater disruption from non-traditional shocks. If, previously, ideas of economic efficiency and comparative advantage guided organisation of the international economic system, resilience and economic security will be the more prominent features, going forwards. Small states—Singapore among them—who have relied on the rules and stability of world order will need to re-calibrate strategies for growth, resilience, and sustainability.

In this new international environment, inward-facing domestic policies—that build resilience and enhance productivity—will matter more than ever. But in their external-facing policies, small states will need to move beyond rule-taking to proactive strategies that include mitigation, network-formation, and norm-construction. **Economic diplomacy**—the small-states analog of economic statecraft—will need to play an active role alongside more traditional strategies of building resilience, strengthening productivity and innovation, and participating in conventional cross-country networks and supply chains.

2 Background

The School of course already has an excellent economics-based research center, the Asia Competitiveness Institute (ACI). That center’s origins drew on Michael Porter’s competitiveness research, attracting MTI support then primarily because that approach promised a meso-level analysis, beyond micro- and macro-economics. ACI has now expanded its franchise to also study inflation and prices,

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labour markets, and a range of other economic dimensions. Moreover, ACI's engagements with regional sub-national stakeholders—who continue to have great interest in competitiveness measurement—are beneficial and should of course continue. What is described here does not seek to replace current ACI work but can naturally complement that research and engagement.

Competitiveness, like productivity, is primarily about internal, domestic development: reforming and enhancing one's internal structures allows heightened performance. Domestic reform and productivity improvements are of course good things. The question is how policymakers need to prioritize them relative to other concerns. Where are an economy's most urgent policy needs?

This Economic Diplomacy Initiative (EDI) at LKYSPP focuses on how economic performance of any state—especially that of a small economy—is strongly determined by how that state navigates world order, i.e., the international system comprising rules, conventions, and norms for how nations engage with one another. Geopolitical forces now shifting the global landscape will only deepen this relationship between national economic performance and the international system. Thus, for economic success, this initiative argues, policymakers need to appropriately prioritize engagement with driving forces that are international, aggregate, and institutional.

This represents a rebalancing of focus in economic policymaking, particularly in the domains of growth, development, and macroeconomic stability. For the past 80 years, the international economic system, with ever stronger foundation over its history drawing on ideas of globalization and multilateralism, allowed all states—large and small, developing and developed—to focus on individual nations' growth and sustainability while assuming a stable background of open global markets and international rule of law.

Globalization meant ever more open markets and ever freer trade. Multilateralism meant a three-pronged approach to relations across nations: a level playing field where all nations were treated equally; commitment to peaceful dispute resolution; and cooperation when faced with common challenges.

Rules-based order with globalization and multilateralism is a global public good. The past eight decades saw major powers and global and regional hegemons take on varying leadership roles in the international system through their assuming different responsibilities in underwriting rules-based order. The hierarchy of power, organized around US unipolarity, was no bad thing: all states found it in their interests to maintain the international system. World order was not just a global public good; it was incentive-compatible.

In this system small states behaved as price-takers: they benefited from rules-based world order, certainly, but they additionally held the view that if anyone could change the rules, only Great Powers could. By relying on the stability and predictability of that international landscape, all states—especially small ones—

needed only to concentrate on internal economic improvement: structural reforms; technological innovation and adoption; and improvement in elevating education, improving health, and raising investment. Such supply-side policy measures are obviously always valuable. But they earned especially high returns under rules-based order. Taking the international system as exogenously given, individual nations could optimize by focusing primarily on internal, domestic development. Economic efficiency and comparative advantage provided the overarching principles by which the global economy ran.

Today, those background assumptions no longer apply. World order is shifting and in a specific direction. More and more obviously Great Powers prioritize short-term narrow gain, over longer-term strategic goals. They practice economic statecraft—the use of economic tools to advance geopolitical objectives—rather than defend the rules of multilateralism.

Some observers call such an international environment one where geopolitics has taken priority over economics. In this view geopolitics has disrupted rules-based order, a sensible rational economics-informed international system of globalization and multilateralism.

However, a key hypothesis in LKYSPP EDI is that the current geopolitical disruption has a rationality and logic to it that needs to be assessed alongside those of the rules-based order built around globalization and multilateralism. Geopolitics is not just an arbitrary random undoing of economic ideas. Thus, in our approach the situation is one where both geopolitics and economics play critical and co-equal roles and, moreover, our observation is that such juxtaposition shares high consistency with longer-run historical experiences.

The phrase *economic security* might be a candidate to replace important sub-axes in the overarching goal of economic efficiency. However, economic security can mean resilience against natural events—tsunami, crop failure, earthquakes, monsoons—as much as against geopolitical actions with intentionality—tariffs and sanctions driven by geopolitical objectives. Both kinds of shocks need consideration. But, unlike the first, the second—intentional threats that are acts of coercion—bear the key feature of having someone on the other end out to do us harm. Optimal policies for economic security need different treatment and analysis varying with the sources of shocks.²

In general, the word *statecraft* is used to denote for all nations the directed management of state affairs to achieve national objectives. Thus, both small states and Great Powers openly say they practice statecraft. *Economic statecraft*,

²This same point applies to yet other policy discussions on security. MacFarlane and Khong (2006) had previously argued that UN policies on human security are more effective when they explicitly acknowledge the intentionality dimension on threats that societies face. Versions of this idea appear, although imperfectly, in the terms *anthropogenic hazards* and *complex emergencies*.

in contrast, is typically understood to mean the actions of Great Powers for self-gain. Thus, insightful recent research on international economic strategies, (e.g., Clayton, Maggiori, and Schreger, 2025) note how economic statecraft has been too long neglected. The need for such analysis applying modern economic tools is both urgent and considerable, given how both research and policymaking had previously taken as given the stability of the rules-based order, and how ongoing disruption in the international system becomes ever more pronounced.

While there has been a growing body of research on these matters, important gaps remain. For one, in understanding resilience, the distinction is often not made explicit between natural hazards and intentional threats. It is not just an academic exercise to understand better this difference. Clearer understanding will help policymakers design better policies. It will help societies better predict the trajectory of the shocks against which they need economic security.

For another, a great deal of this research take primarily a Great Power perspective: how can major power powers undertake actions (in the case of Clayton, Maggiori, and Schreger (2025) the directed supply of different goods and services) in order to mold the global economy to their benefit. To be clear, if this tendency is becoming more pronounced in technical economics, it only follows earlier writing in international relations. For Blackwill and Harris (2016), for instance, economic statecraft means not just deploying economic instruments to advance foreign policy objectives, but in the US, it is a “means of working the US’s geopolitical will in the world”.

In smaller nations, however, the goal is more modest, namely to avoid being collateral damage in the conflicts and actions of major powers. (Since the challenges we now consider are shared by both small states and middle powers, or by all nations that are not major powers, the discussion hereafter refers to smaller states generally.) Economic diplomacy, rather than economic statecraft, is a better descriptor of what smaller states should do. Smaller-state responses should not be just native tit-for-tat tariffs or retaliatory beggar-thy-neighbor actions that end up drawing the global economy into a Prisoners Dilemma or epic fail situation. Instead, economic diplomacy needs to be nuanced, strategic, and forward-looking. While remaining respectful of major powers, smaller-state economic diplomacy must strategically optimize its protagonist’s well-being over the longer term.

There is urgent need for ideas and concrete policy recommendations on economic diplomacy. Our belief is that the Lee Kuan Yew School of Public Policy can lead in this area for Singapore and other smaller states.³

³A note on terminology: Many observers use the word *geoeconomics* to mean simply “the global economy” or alternatively, in parallel with geopolitics, the study of how global geography affects competitive cross-national economic performance. Blackwill and Harris (2016) ar-

In LKYSPP’s EDI, therefore, our interest is to study how small states and others who are not Great Powers can use economic tools to build resilience against Great Power vicissitudes. Our objective is to provide research and policy engagement on a complementary challenge to that in economic statecraft: Rather than study how Great Powers can do better, we seek to study instead how small states should best respond to Great Power economic statecraft. We call this economic diplomacy, as opposed to economic statecraft. Put differently, our goal is not to help Great Powers do better; it is to help small states protect themselves.

Our proposed work seeks to help policymakers navigate a new permanently-disrupted international economic system where previous focus on supply-side enhancement no longer suffices to guarantee stability and prosperity. Without the elastic global demand afforded by globalization and multilateralism, improving one’s supply side no longer creates jobs and wealth; it raises unemployment. Small states need a new handbook for growth and development so that they can navigate a progressively fractured global economy.

3 Analysis

This Section describes economic diplomacy, or economic statecraft for small states. Section 4 that follows will draw on questions raised here to describe a number of concrete EDI workpackages.

This Section is organised in two parts. Section 3.1 lays out a basic framework for smaller states in the changing international system, organized around three key propositions on the transition away from rules-based order. Building on this analysis Section 3.2 considers research and policy questions surrounding economic diplomacy. Some of these questions concern, in the language of decision theory and game theory, **best responses** by smaller states. Section 3.2 raises not just positive questions but also systemic normative ones: what better international systems might smaller states build or might endogenously emerge from current economic and geopolitical dynamics?

gue, however, that the rightful meaning of geoeconomics emphasises proactive self-awareness, i.e., geoeconomics is “the use of economic instruments to accomplish geopolitical objectives”. Indeed, Blackwill and Harris (2016) lament how the practice of US international economic policymaking lost its way and became overly focused with mere economic efficiency, making unavailable an important “means of working the US’s geopolitical will in the world”. To emphasise the focus of attention in this initiative, I do not use the term geoeconomics but if I were to do so, I would follow Blackwill and Harris.

3.1 Smaller states in today's fragmenting rules-based order

First, the model of international economic relations of the last eight decades no longer functions.⁴ While that fact might be now obvious, clearer insight on *how* world order is changing can help guide states on how they can best navigate the evolving system. The previous model was founded on principles of multilateralism and international rule of law. Multilateralism provided a level playing field across nations, commitment to peaceful dispute resolution, and norms of cooperation when faced with common challenges.

These rules allowed smaller states such as Singapore, not just to survive, but to thrive. The research proposed here builds on the hypothesis that current disruptions to world order are due not only to exogenous shocks, but represent an endogenous buildup of tensions inherent in the system. Understanding this causality will help smaller states craft better, more enduring strategies.

Second, small states under-estimate their agency when they consider themselves merely price-takers. Certainly, smaller states don't have recourse to the same tools that Great Powers use for economic statecraft. Impact is obviously limited on smaller states' sanctions, trade weaponisation, and—except in very special circumstances—monopoly control of critical products. The research proposed here, however, calls attention to how being unable to draw on Great Power policy instruments is not synonymous with having no agency. Price-taker behaviour might well be optimal under a rules-based, multilateral order, but what are the boundaries on smaller-state strategies in a world order that no longer follows the rules of multilateralism? What objectives are attainable for smaller states in an international system changing in the manner we are describing?

Third, strategies can take two forms: those implemented unilaterally, on the one hand, and, on the other hand, those available to networks of like-minded members focused on specific sets of problem. What is their optimal mix? Networking strategies might be viewed as a version of plurilateralism or, alternatively, of systems characterized by variable geometry. Such networks might be regional or otherwise connected by common incentives, as geographically-defined regionalism is just a special form of shared interest. Unilateral and plurilateral strategies are importantly different, but both can be useful. Domestic reforms to improve one's economic performance call for a different set of policy discussions than leveraging networking to build incentive-compatible plurilateral organizations.

The three propositions just outlined will be key for the strategic discussion

⁴This might seem to some observers as an over-statement, given that in 2025 three quarters of global trade continued to follow WTO-based MFN practice. At the same time, however, there is no question that disruptions to trade have escalated. By 2022 restrictions on international trade imposed by nations around the world had tripled as compared to 2019.

that follows. The remainder of this subsection provides more detailed background but an impatient reader can proceed directly to Section 3.2

International economic policymaking since the end of World War Two has, rightly, been conducted taking as given the international rules of the game. That understanding was conditioned on rules that included multilateralism—a level playing field, commitment to peaceful dispute resolution, a default modality of collaboration—and on international institutions of global governance that applied those rules. Building on these, national-level economic policymaking could be guided by principles of economic efficiency and comparative advantage.

Therefore, nations, especially those with their eye on the long-term, rightly focused economic policy-making on the supply side. Emerging economies piled resources into improving their people’s health and national transportation and communications infrastructure. These are also always the right things to do—no rich economy has developed without having a healthy productive workforce and robust reliable transportation. But returns to such investments are particularly high when the international economic system operates under multilateralism. Political stability and international rule of law provide economic environments that make possible long-run growth and development. Globalization meant that for practically everything that every economy produced international demand was elastic. Thus, previously backwards economies successfully developed. This increased multipolarity in the world, in the process inadvertently drawing down the US’s unipolar moment (Gaspar, Hagan, and Obstfeld, 2018; Ikenberry, 2005; Quah and Mahbubani, 2016). Great Powers, naturally, began to see a progressively unfavorable cost-benefit ratio to supporting the multilateral world order. Small states, although unable to draw on engines of growth in complexity (Hausmann, 2025) or economies of scale (Romer, 1986, 1990) nonetheless became the world’s most successful economies (Quah, 2025a) under the stability and reassurance provided by multilateralism and international rule of law.

Today, however, multilateralism is on the wane and the global economy is fragmenting (e.g., Georgieva, 2023; Gopinath, 2024). The Great Powers that originally architected the multilateral system have found cost-benefit calculations undermining their earlier decision to support that system. When the Soviet Union was America’s ideological adversary in the Cold War, the US found it advantageous to argue for the economic success afforded by open markets and free trade, given its opponent’s position on these. As John F. Kennedy put it, “A vital expanding economy in the free world is a strong counter to the threat of the world Communist movement.” Today America’s adversary is China who, instead, ruthlessly and successfully leverages open markets and free trade. But even outside Great Power rivalry, as economic success spread around the world, US unipolarity diminished in different distinct dimensions. Ongoing gains in global growth became more widely distributed than before, not longer simply as

a majority share to the world's leading power (Armstrong and Quah, 2026; Quah, 2025d,e, 2026a).

Examining the arc of this argument more closely will be an important part of the research scholarship to be undertaken, as envisioned in this proposal. But while it is important to understand the reasons for the decline of multilateralism and globalisation, it matters even more that research look to formulating economic strategies to respond to these changes. With a fragmented world economy, global demand becomes inelastic. Policymaking that boosts the economy's supply side then does not create jobs or wealth; it raises unemployment. If economic efficiency and comparative advantage no longer serve as guides, what should be the new rulebook for economic growth and development?

3.2 Smaller-State Best Responses and Systemic Outcomes

The previous discussion gives rise naturally to a number of themes or issue clusters that can help guide the Initiative's research and policy engagements.

3.2.1 Forms of Economic Diplomacy

The first theme is to understand the range of forms economic diplomacy can assume. A possible starting point for such investigation is to hypothesise that small-state economic diplomacy can only take a mix of three possible forms: align; acquiesce; or adapt and mitigate (Quah, 2025c,f,g, 2026b; Quah and Ng, 2026).

Alignment means a smaller state taking sides, or more generally, accepting the bundles of attributes—trade and technology in particular—offered by a small set of Great Powers. 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. These three broad strategies can usefully catalogue and organise a wide range of alternative smaller-state actions, but more research is needed to understand their effectiveness and feasibility. Section 6 provides more detail.

3.2.2 New Production Structures

The second principal theme is how smaller states can best reorganize their production structures, both internally and in networks. In the globalized, multilateral system, history shows that the optimal forms are global supply chains. What is the counterpart to these production forms in a global economy that no longer

provides for multilateralism? Trade drawing on the usual comparative advantage reasons can worsen income inequality, and thus endogenously undermine domestic support for international exchange. Can new forms of cross-country production prevent such deterioration in incentives for trading nations to support multilateralism? Section 3.2.2 discusses one leading possibility in this regard but the initiative will consider yet others in the course of the research.

3.2.3 Intertwined Domestic and Foreign Policy

A third cluster of issues that emerges from the discussion is the interaction between domestic economic circumstances and foreign strategy.

Part of why advanced nations grew disenchanted with globalisation and multilateralism is their experience with rising income inequality and reduced social mobility as trade advanced. In some economies this is captured by the idea of the China Shock, the hypothesis that China's manufacturing prowess (and the charge of state intervention) tilted the playing field against them. The US in particular has taken this to heart and turned to measures of bilateral trade balance as indicators of whether trade worked against it.

Such narratives set domestic stakeholders against the previous rules-based order of globalization and multilateralism, and allow political leadership to emphasise unfavorable cost-benefit ratios to that nation's participation in the international system. This does not overturn the theory of comparative advantage, but instead accentuates unfair distribution of gains across so-called winners and losers within a nation. Even as consumers benefit from trade, segments of the working population, business, and industry experience loss. The resulting rise of populism makes that nation averse to supporting the traditional rules-based order.

But how do the different forces rank in strength? What can domestic political debate do to help or worsen the situation?

3.2.4 New Forms of Order

Finally, a fourth theme is to the question of new forms of world and regional order that might emerge.

If across nations, some continue to see the benefits of rules-based trade, but others do not, will the international community fragment into different spheres of engagement? What is the role of regional blocs such as ASEAN or trade groupings such as CPTPP or RCEP in advancing a new world order? Is a so-called **G-minus** world possible, that excludes those nations—such as the US—that feel they no longer benefit from a rules-based order of globalization and multilateralism?

If the old rules of globalization and multilateralism no longer apply, what new ones might help stabilize regional or plurilateral orders? Will states be able to cooperate without a global hegemon enforcing rules and order? Ideas surrounding so-called *inadvertent cooperation* suggest this might be possible, although the mechanisms that make this hypothetical possibility work have not yet been rigorously studied.

4 An Economic Diplomacy Initiative at LKYSPP

Section 3 can be viewed as just a workplan for an individual researcher. But the volume of research and its attendant policy implications will see its impact multiplied if it becomes the core of a new thinktank or research center. This last is what this Section now turns to.

The core of this work is economic relations between states, with primary focus a small state. This proposal steps outside the traditional concerns of economic statecraft, or the use in major powers of economic instruments to achieve foreign policy goals. Included in the work, nonetheless, is the need for leadership and coalition-formation, typically considered the domain of only so-called middle powers. Foreign policy goals in general can be aggressive or accommodating, imperialistic or mitigating.

To improve our understanding of economic diplomacy, the research needs to combine modern game theory, historical narrative, and data analytics. A first workstream, therefore, is to develop rigorous, empirically-grounded models of economic diplomacy, describing the menu of strategies available to small states (and middle powers). Included in this will be models of multilateralism, not taking the so-called international rules of the game as given, but where inadvertent cooperation, incentive-compatible coalitions, and pathfinder plurilateralisms and multilateralisms can be analysed to emerge endogenously.

But such a line of attack focusing on grand strategy can end up overly detached from the microeconomic realities of resilience and infrastructure, productivity and innovation, and production networks. Thus, a second workstream will be needed to provide data-based analyses of new microeconomic models of trade and production networks (or perhaps production syndicates), where populism and nationalism, and income inequality and social mobility, or national political economy more generally, are brought into greater focus, given how traditional assumptions of globalization and multilateralism are no longer available.

1. The causes for the breakdown of globalization and multilateralism can be explored in greater detail, by multiple researchers. This would allow either strengthening or rejection of hypotheses such as developed in Quah

(2025d, 2026a), where geopolitical and global economic forces are described to align, both when the rules-based multilateral order was being built and when it was fragmenting. Research by econometricians, historians, and international relations scholars would help firm up our understanding of the 20th-century rise and fall of multilateralism. Clusters 3.2.1, 3.2.4.

2. Strategic analysis is a central part of economic statecraft. Alignment, acquiescence, and adaptation/mitigation—as described in Section 3.2.1—provide a platform that can be extended and refined. If alignment is a vertical or hierarchical commitment, horizontal or peer relations are also available: these will entail coalition formation among smaller states, potentially on lines of specific interests rather than bundled alignment. These coalitions can be incentive-compatible, rules-based, experiments in multilateralism without the need for major power leadership. Such groupings allow smaller states to step away as much as possible from major power rivalry or major powers generally as determining factors for their economic security. Next, while acquiescence can be considered tactical de-escalation, proactive intermediation can instead move the smaller state in the opposite direction and place it in a position of economic essentiality and value to major powers. Since the smaller state cannot be large, it can seek instead to be economically necessary. Finally, adaptation and mitigation—although different in character—share the feature that they take major powers actions as central in smaller states’ policies, and seek resilience against those actions. Instead, smaller powers could look to reshape the game altogether through institutionalising new economic norms and production organisation. Strategic analysis combining economics and international relations can usefully extend and study the menu of possible options of economic statecraft for small states. Clusters 3.2.1, .3.2.4.
3. Political economy will provide a central set of tools in this investigation. How do the external pressures emerging from globalization and multilateralism interact with domestic institutions—bureaucracies, financial organizations, political connections—to help shape economic outcomes? How do these interplay of forces and incentives vary across political systems and stages of economic development? Firms and bureaucracies can be usefully surveyed to shed light on how domestic constraints engage with geopolitical risks, and how in turn domestic engagement can inform national economic and security strategies of alignment, acquiescence, and adaptation and mitigation. How much has blaming foreign trading nations substituted for within-country redistribution policies? Clusters 3.2.1, 3.2.3.
4. If economic security is a candidate to replace economic efficiency and com-

parative as one of the central organising planks of new trade agreements, how exactly do different governments and policymakers conceptualize and frame economic security? Earlier this writeup remarked economic security means protection against both natural events and intentional acts. A valuable initial line of policymaker engagement can be to gather together a series of high-level practitioner, thinktank, and academic meetings to work out a common understanding on the boundaries of economic security. Parallel work can proceed using machine analysis of statements by ministries across geographies. All this will, potentially, reveal the convergence and divergence of understanding. This will improve identification of coalitions of the willing that can form new multilateral-principled groupings. Clusters 3.2.2, 3.2.4.

5. How does the China Shock allocate gains and losses across consumers and producers? Almost all the policy focus has been on job destruction and local industry competition. This is right as those have been both economically vulnerable but politically pivotal. But a fuller picture is needed for more coherent policymaking. Can ASEAN nations and other small states evade the political quandry in which the US finds itself, where the MAGA movement obviously draws fuel not only from the China Shock itself but from extending the logic to all trade generally? Those who believe still in free and fair trade according to WTO rules do not, at this point, have as ready access to a full picture of the gains and losses from trade. A thinktank in ASEAN where rigorous analysis comparable to that in Autor, Dorn, and Hanson (2016) and Kennedy and Mazzocco (2022) would help economic diplomacy in this part of the world. Clusters 3.2.2, 3.2.3.
6. What are the distributional effects of regional supply chains? The impact of trade on income distribution has been the subject of extensive empirical analysis (Rodrik, 2024). Comparable investigation is needed, not just for supply chains generally, for those in the Asian region in particular. This is critical for understanding how new production structures might be more robustly designed. Clusters 3.2.2, 3.2.3.
7. The work on helping better understand the distributional challenges and opportunities to trade or to cross-nation supply-chain syndicate production has important consequences for policy on social mobility and income inequality, following, e.g. the hypotheses developed in Quah (2025b). Thus the work on economic diplomacy in such a thinktank should also connect to social mobility within societies. Clusters 3.2.2, 3.2.3.
8. Does the triple “align; acquiesce; adapt and mitigate” span the space of

possible best-response strategies by small states? Section 3.2.1 describes the difference between these. What can more extensive Clusters 3.2.1.

9. Understanding the causes behind the rise and fall of the multilateral international economic system is of not only scholarly interest. That understanding will help build new multilateralisms. These last might take the form of plurilateral groupings, regional organizations (Herz and Ho, 2026), or yet other incentive-compatible coalitions (Quah, 2025d,e). These can then lead to practical economic diplomacy helping build regional or plurilateral groupings that mitigate the destructive impacts of global economic fragmentation. The work should also critically evaluate the natural tendency to view middle powers to provide leadership in a new world order (Russell, 2025). My working conjecture is that leadership in new multilateralisms will need to escape the hierarchy of power but draw instead on states' intelligence, networking, and agility. These are as much the domain of small states as they are of large ones (Quah, 2025g). Clusters 3.2.1, 3.2.4
10. Economic development has in research and policy most recently focused on capacity-building. Intervention programs to improve health, basic skills, and participation have been a central focus, both for evaluation and in implementation. The implicit assumption is that demand is always ready to pick up whatever additional output is generated by improvement on an economy's supply side. In the traditional thinking, the further implicit assumption is that if domestic demand is not forthcoming, external global demand is elastic. This indeed was the development model practiced in China, Singapore, and elsewhere—and significantly in economies both large and small in population. However, today, the international economic system no longer follows the principles of globalization and multilateralism, but instead comprises nations that are narrowly self-seeking and protectionist. This breaks the development model's implicit assumptions: boosting the supply side then no longer creates jobs and adds value. It only increases unemployment. What new rulebook do development practitioners need when it is economic diplomacy that matters critically? Clusters 3.2.2, 3.2.4
11. Such a change in the international environment has consequences on financial markets. Developing country debt undertaken when the international environment made profitable investments in capacity-building will decline sharply in value when global demand becomes inelastic. Developing nations will then find more difficult debt servicing and repayment, thus worsening the problem of international indebtedness. But more than

this passive reaction, there is an important active dimension. The global hegemon routinely practices economic statecraft through weaponizing the international financial system and, in particular, leveraging the power of its money supply in the form of the world reserve currency. What options does the rest of the world have to improve resilience in such an international system? Clusters 3.2.2, 3.2.3

12. A just transition for mitigating the global climate crisis was always going to be challenging, even in a world where nations followed enlightened self-interest (Saran and Quah, 2024). This is because such a crisis satisfies the conditions of the so-called tragedy of the commons. With the fraying of multilateralism, the challenge becomes orders of magnitude more daunting. Humanity will be less willing to bear the cost of mitigating the climate crisis if it means immediately lowering its standard of living, especially those who are already suffering from under-development. The Global South might have seen a way to be green but also continue to rise if clean energy sources were more widely available. Electric vehicles, solar panels, wind turbines, and batteries might have offered some respite but, because of the dual-use nature of these technologies, these also happen to be a focus of geopolitical rivalry in the form of techno-nationalism. Without under-estimating the engineering challenge of making available affordable green energy, economic diplomacy will matter critically for enabling a just transition in the global climate crisis. Clusters 3.2.2, 3.2.3
13. Engagement with agencies and ministries, in Singapore and internationally.
 - (a) I have worked and consulted with groups in the World Bank, IMF, UNCTAD, RCEP, the ASEAN Economy Ministers Geoeconomics Task Force, PIIE, and a wide range of thinktanks, agencies, and Ministries in Singapore, including MTI, MOM, MSF, MOF, MAS, RSIS, SIIA, and others, on a range of these economic diplomacy questions. A strong initiative at LKYSPP will naturally draw also on, not just the Economics but also the International Relations scholarship in the School's faculty generally and the Centre for Asia and Globalisation in particular. All these work on the general questions articulated above but none yet do so under an organising structure of economic diplomacy as I have described. ACI's work with MTI has historically featured more the "I" or industry part of the Ministry. What I propose in economic diplomacy turns to the Ministry's "T" or trade part. Taken all together, a strong Singapore-centered research and policy group can be built at LKYSPP around the challenge of economic diplomacy.

- (b) Other institutions and initiatives around the world have focused primarily on economic statecraft, not as much on economic diplomacy. These include the Peterson Institute of International Economics, the Belfer Center at Harvard Kennedy School (Economic Statecraft Initiative), Princeton University School of Public and International Affairs, Columbia University SIPA, Oxford University (Blavatnik School, China Centre), Yale University's Jackson School of Global Affairs, the Fletcher School at Tufts University (the Hitachi Center), the Council on Foreign Relations, the Brookings Institution, the Center for a New American Security, the Atlantic Council, Chatham House (London), the Asia Global Institute (Hong Kong China), Renmin University School of Global and Area Studies, China Academy of Social Sciences Institute of World Economics and Politics (Beijing), the Institute for Geoeconomics (Tokyo), and Lowy Institute. Institutions undertaking work that is closest to the economic diplomacy narrative in this proposal include those in Switzerland (the University of St. Gallen, Global Trade Alerts), Indonesia (CSIS, PAFTAD), and Australia (ANU, again Lowy Institute). I already know well many of the principals at these institutions and plan to engage them in the ongoing workplans of this economic diplomacy initiative.
- (c) In Singapore, a number of other institutions do related work. SMU's [Centre for Research on International Trade](#) studies, as its name suggests, cross-country trade, with a focus on production networks and global value chains. It brings together expertise in microeconomic approaches to international trade, innovation, and labour economics. The sharpest difference from what is proposed here is this proposal's highlighting the relation between geopolitics, international relations, and international economics, whereas SMU's Centre focuses on more traditional, firm-level, production-based (infrastructure, networks, value chains, and disaggregated data) research. It is obviously critical to understand the micro-analytics, but at the same time, it is critical too to engage with the larger questions in geopolitics and disruption in world order. Our proposal brings the latter into the analysis. In our approach, geopolitics play as central a role as does micro-grounded, disaggregated data analysis.
- (d) At a different end of the range, NTU RSIS's [Centre for Multilateralism Studies](#) (CMS) considers, as the name again suggests, research on international political economy and multilateralism. CMS focuses on multilateralism in its different forms—economic, international political economy, and organizational. Even though the ultimate goal

of cooperation across nations is shared by both CMS and the current proposal, the argument we make is that multilateralism can no longer be taken as a given, not least as world order continues to evolve from its current disruptions. Certainly, our approach brings in ideas from economics more prominently than CMS emphasises. But where we differ most critically from CMS is that our approach does not presume multilateralism will continue to exist in a form that allows building cooperation as is historically possible. Instead, our approach considers the possibility that new forms of multilateralism might need to be analysed and built.

The way I see the work unfolding includes the following:

1. A core group of academics and researchers, working on blue-sky, innovative ideas on economic diplomacy. The output will be working papers and technical reports in the first instance, but all targeted for publication in top journals and as books in leading university presses.
2. Regular engagement with practitioners—Ministries, agencies, think-tanks—and public dissemination of findings. The initiative will need to have strong communicators who can speak in public and provide commentaries and op-eds on the ideas of economic diplomacy.
3. Short-term visiting fellowships for scholars and practitioners interested in economic diplomacy.
4. Specialized two-week training workshops for PhD and postgraduate students, providing both certification and tools for writing research papers on economic diplomacy.
5. Leadership workshops that provide economic diplomacy training to public officials.

Output will emerge on the first three of these items within 6–12 months. Training and leadership workshops should take place by within the first two years of operation.

I don't have a strong view on how this economic diplomacy initiative sits relative to ACI. It can be a second major part of what ACI already does, using the idea that there is just a single point of contact for institutionalized economics research at the School. Although I have only mentioned the School's Centre for Asia and Globalization (CAG) in passing, given the cross-over ideas in international economics and international relations drawn on in my conceptualization

of economic diplomacy, this initiative could also become part of CAG, again keeping the single point of contact for institutionalized research on international affairs generally at the School. Alternatively, this economic diplomacy initiative could become a separate new thinktank at the School. But I think this only a remote possibility, not least for how considerable start-up cost would be needed. The advantage to this third strategy, however, is that ACI and CAG could continue to preserve a clean identity in their traditional arcs of research and engagement, while this initiative carries forwards the ideas of economic diplomacy.

5 Conclusion

This writeup has considered a potential new economics initiative at the Lee Kuan Yew School of Public Policy on Economic Diplomacy.

The motivating background is the fact that small open states now confront an international environment that is increasingly tentative, contested, and disrupted. The new world order is still being formed and its direction remains unclear still. But almost surely small states will not find it optimal to be only price- and rule-taking. Instead, strategies in economic diplomacy will need to be devised, that look to mitigation, coalition-formation, and norm-construction. This does not undermine traditional analyses of resilience, productivity and innovation, and networks and supply chains. But those latter will need to be re-centered alongside themes in geopolitics and international relations.

The proposal has described both justification and work program. It has, as a starting point, drawn heavily on my own research and policy-engagement instincts and interests. But then it also points the way forwards to a broader program of work for many more of the School's academics and practitioners. Such an initiative would bring together our School's faculty in Economics, International Relations, and Public Policy, as well as the broader community in Singapore of researchers and practitioners.

External circumstances in the world make compelling such an initiative at this time. An economic diplomacy thinktank or a research center at our School would fill a gap both in organizing and synergizing the current work at LKYSPP. Just as importantly, it would also add considerable value in the wider world of research scholarship and of research-driven policy engagement.

6 Annex to 3.2.1: Align; Acquiesce; Adapt and Mitigate

This Appendix provides more detail on the smaller-state strategies of alignment, acquiescence, and adaptation and mitigation.

Alignment, strictly speaking, means taking a side in a binary geopolitical decision. It is the easy answer to questions like, "We're going to war. Who's with us?"

If we visualise major powers as two abstract points and draw a straight line connecting them, then placing a Third Nation at either one of the endpoints represents perfect alignment with that particular major power. More generally, however, any location on that connecting line mathematically represents distinct choices of balancing, hedging, and bandwagoning (e.g., Khong and Liow, 2025). All such strategies therefore are simply instances of generalised alignment. Specific instances of generalised alignment will be optimal when the geopolitical environment is zero-sum, so that any gain by one side is a loss for the other.

Generalized alignment bundles together choices about trade, technology, and security, thus forcing a single setting across what would otherwise be multiple degrees of freedom. An alignment setting should be relatively long-lived. Extreme short-term alignments with constant realignments are meaningless.

Acquiescence differs from alignment. It can be viewed instead as a specific form of appeasement. Acquiescence surfaces most obviously when a smaller state has to deal with a major power whose broader national objectives are unclear but has a high-profile, thin-skinned leader (say).

In this case acquiescence by a Third Nation can use cheap-talk signalling or high-visibility but ultimately low-substance actions—awarding a meaningless prize or building a project in the individual leader's name—to draw a positive response from the major power.

But acquiescence can also be more substantive. For instance, Agreements on Reciprocal Trade (ART) signed in 2025 by a number of nations with the Trump administration agreed, in varying degrees, to align with the US on export controls and sanctions, to refrain from purchasing nuclear materials from US adversaries, and to submit to US regulatory oversight. Smaller nations offered generous concessions in an attempt to see if the US administration might have an elastic schedule of responses along which it might be convinced to relent into less draconian action. Evidence presented in Quah (2025g) on tariff outcomes following the US's Liberation Day announcements suggests sharp limits to what acquiescence and appeasement can deliver for small states.

The goal here is to stabilize the Third Nation's foreign policy environment without actually making enduring strategic commitments. While alignment is

long-lived, acquiescence is immediate and short-term.

Adaptation and mitigation are strategies that draw on policies on the global climate crisis. They represent the most novel and proactive approach for smaller states. If alignment places a state somewhere on the straight line between major powers, adaptation and mitigation involve stepping off that line altogether, so that the smaller state seeks to reshape the external shocks, not just passively react to them.

Adaptation minimizes the *impacts* of shocks; it treats symptoms. If for the global climate crisis, adaptation has societies improve their water management or move their vulnerable populations to safer ground, then for economic diplomacy, examples can include developing a more resilient workforce and building more robust production infrastructure. The small state can shift the nation's production landscape through industrial policy to have a more advantageous bargaining position relative to others; increase the resilience of the nation's consumers; re-focus education from primary through both university levels and continuing education for the workforce; and facilitate training and cross-sector transition of vulnerable workers.

By contrast, mitigation targets the *causes* of shocks, reshaping the system to prevent disturbances from emerging in the first place. For the global climate crisis, mitigation means accelerating the transition to green energy, shifting out of hydrocarbons into renewables, and working to reduce emissions, then in economic diplomacy, examples would include forging new multilateral frameworks for trade, investment, and production. Such networking actions build credibility in international relations, making oneself essential to others and thus altering the cost-benefit calculations for anyone who might have wanted to harm that smaller state. By coming together in new coalitions of the willing, the impact of smaller states' stance on principles is magnified, a strategy that combines both adaptation and mitigation.

Mitigation shifts the focus of action from the power hierarchy to incentive compatibility. Rules-based trade, for instance, does not logically require a benevolent hegemon. Instead, it requires coalitions of the (literally) willing where no member of the coalition sees unilateral incentive to deviate from the rules. Recourse to leadership—be it of major or middle powers—is not a logical necessity, but instead indicative of a defect in mechanism design.

In sum, mitigation repudiates price-taking passivity. It seeks instead to strategically change the behaviour of a belligerent major power.

More generally, all three strategies of alignment, acquiescence, and mitigation can be seen also to have echoes in Singapore's national defense strategy over time. That is a defense strategy that has evolved from a "poisonous shrimp" (as articulated originally by Lee Kuan Yew), through the "porcupine" stage (where the projection of the defense mechanisms extend out a further distance than un-

der the poisonous-shrimp strategy), and then the “dolphin” stage, where agility and networking can synergistically raise the effectiveness and agency of small states.

Alignment and acquiescence are unilateral strategies for economic diplomacy. They are available to a nation regardless of what others around them do. Adaptation and mitigation, on the other hand, can be unilateral strategies or multilateral ones. In their multilateral versions, adaptation and mitigation can be deployed jointly by a network of smaller states in coordination, and thus made stronger and more resilient.

7 Annex to 3.2.2: Cross-country Supply-chain Syndicates

An example of a multilateral mitigation strategy is a cross-country supply-chain syndicate that engages in profit-sharing, to mitigate the effects of creative destruction specific to individual nations. Consider the China Shock, the hypothesis that China’s export prowess leads to permanent job losses and industrial decline in those nations that import from China. Previously this featured primarily in US political narrative (Autor, Dorn, and Hanson, 2016; Kennedy and Mazzocco, 2022). But more and more these ideas now appear in economic policymaking discussions in ASEAN and elsewhere as well. Even when the theory of comparative advantage applies, so that importing nations benefit on net—because their consumers now have access to high-quality goods at lower prices—re-distribution of the total gain never takes place. Under China Shock conditions, the job destruction that occurs impacts economically vulnerable but politically pivotal workers, worsening inequality. One possible way forwards is to move production from today’s global supply chains to cross-country supply-chain syndicates that leverage production complementarities and profit-share appropriately: Doing so ameliorates inequality and job displacements along the value chain. But for this to succeed requires coordinated structural reforms that are directed to build international linkages—not just relentlessly raise one’s own productivity. Thus, the international system needs a more strategic form of multilateral agreement than currently available. Such a multilateral understanding would draw on the same forces that appear in climate crisis discussions of “just transition” (Saran and Quah, 2024) or more generally aligning interests to build incentive-compatible multilateralisms (Quah, 2025d,e,g).

Large states can, on their own, potentially carry out all the actions just described for a cross-country supply-chain profit-sharing production syndicate. No such profit-sharing, however, has in reality ever occurred at scale. The US,

throughout the period of hyperglobalization, could have reduced the negative effects of the China Shock, while continuing to reap the benefits of win-win comparative advantage. Through minimal tax-transfer schemes, US policymakers could have helped many of that nation's dislocated workers transition into new industries. But, because they failed to do so, the reallocation costs of the process of creative destruction fell disproportionately on America's working class, fuelling the rise of MAGA populism.

8 Annex to 3.2.3: Domestic Political Economy

How might domestic political institutions aggravate or relieve the pressures of participating in a rules-based international order that emphasises globalization and open trade? Bureaucratic incentives, domestic finance including banks, and political connections all help shape outcomes, and they respond to external economic pressures differently.

What pressures do such institutions place on national leadership? How do they constrain politically-acceptable actions in the face of international economic competition? As geopolitical challenges rise, how these domestic systems respond, and how do they affect national strategies of alignment, acquiescence, and mitigation?

9 Annex to 3.2.4: New Multilateralisms

When mitigation occurs in a group as economic diplomacy, a natural outcome is the formation of a plurilateral coalition. These coalitions become incentive-compatible groupings of like-minded nations, in theory more robust than groupings led by Middle Powers. This is because Middle Powers are, in effect, only Great Powers in-waiting, and the same cost-benefit calculations that have made Great Powers suspicious of multilateralism will, eventually, apply to Middle Powers as well.

Economic diplomacy can help to imagine and build such new world orders. For instance, a **G-minus** world might be viewed the natural limit point of the sequence of international communities that have gone from G20, G8, G7, G2, through G-zero. An example of a G-minus world would be a community of nations within which is a rules-based order but that excludes those who do not wish to obey those rules. Such a community would always welcome new members—so it is officially an open and inclusive coalition—as long as those potential entrants agree to comply with the rules that define the order.

However, the emergence of incentive-compatible multilateralism will not be

automatic. The research ideas just described will need to be disseminated and communicated to academic counterparts and policymakers in other nations who collectively see benefit to a new economic diplomacy for a global economy that continues to become ever more fragmented.

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