

Asia's Crossfire Shock: From Multilateral Order to Geoeconomics and Strategic Interdependence

by
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1 Introduction

These past two generations have seen profound Asian economic success. That achievement has been broad based despite Asia's economies being deeply different from one another structurally. Success has been neither exclusive to just Asia's billion-people giants, China and India, nor just Asia's small city-states like Singapore. Instead, the core of Asia's success has resided in a powerful but sometimes unnoticed commonality: gainful engagement with the rules-based multilateral world order steadily refined in place since the end of the Cold War.

But world order is now shifting from rules-based multilateralism to geoeconomics and strategic interdependence, and thus towards fracture in the global economy. The result is a pressing challenge for Asia: what is needed for continued economic success?

I provide in what follows an unpacking of the disruption to rules-based multilateral world order. I hypothesise three shocks: a China Shock that can also be viewed as a supply shock; a US Shock, or a demand shock; and a Multilateralism Shock, or a systemic shock. Taken together, these disturbances help explain the emergence of a new international economics of strategic interdependence.

That Asia in general and Southeast Asia in particular have benefited so much from rules-based multilateralism also means they are where incentive is greatest to repair the system. This, however, does not mean simply restoring a snapshot reproduction of the postwar global order. For one, Asia's states might be varied in population, but in the main can be considered small, in the same sense where in economics we say consumers and firms are small: they don't view themselves as being able to unilaterally change the entire system. For another, making the international system just "multilateral-enough", say, would already suffice, and is far more manageable for small states who cannot behave like global hegemon. But what does this mean, and how might such a rules-based, multilateral-enough system work for Asia?

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2 Asia's Economic Success

Asia's economic progress since the end of the Cold War has been nothing short of breathtaking.

Those familiar with Singapore's success story recall "From Third World to First", the evocative phrasing of Founding Prime Minister Lee Kuan Yew's political memoir. But Asia's developmental success extends beyond small city states while, at the same time, is more than just the achievements of China and India, Asia's two billion-people economic giants.

In just little more than a single generation (Quah, 2026a) Asia's 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 international dollar—fell from over half to one sixteenth. Life expectancy at birth rose a full decade. Adult literacy increased by twenty percentage points.

These advances are seen across many nations in Asia. In terms of populations across nations Asia's 2023 mean-median ratio was 3.5, compared to a world ratio of 4.3. Both of these are down from their 1990 values of 4.2 and 6.0 respectively. Overall, states with smaller populations have been growing faster, relatively, in population.

At the same time, the correlation between GDP per capita and population in Asia has grown less negative, from -0.45 to -0.20 ; that in the world, similarly, from -0.30 to -0.07 . In words, the historical negative correlation between size and per capita income has, in effect, vanished worldwide. The same dynamic is seen in Asia to a lesser extent. But historically and still the case for Asia, smaller economies have been richer.

These have two implications. First, to the extent that a rapidly ageing Asia will run into growth challenges, it is notable that Asia's smaller states are where populations are more likely to be younger and growing still (with Singapore a significant counter-example).

Second, to the extent that economic prosperity draws on diversification, expanding variety, and complexity at scale, it is puzzling that Asia's small states have historically been more successful than its large ones. The resolution to this apparent paradox is cross-border trade and value chains. Small economies—whether in population or in hinterland spending power, as was the case for China until the late 20th century—will always tend to make too much of what their people can and not enough of what their people need. But cross-border trade profoundly changes that equation.

For Asia to continue its trajectory of economic prosperity, two factors loom large: demography and access to international markets. The success of Asia's small states is critically intertwined with both.

In this past generation rules-based multilateral order, and the accompanying

globalisation, have provided the economic space for this success. Of all the features of that global order, three are critical: first, a level playing field; second, a commitment to peaceful dispute resolution; and third, a norm of cooperation in the face of shared challenges. The current disruption of the international system threatens withdrawal of all three.

3 Three Shocks from Rules-Based Multilateral Order to Geoeconomics and Strategic Interdependence

It is now near-conventional wisdom to say geopolitics has disrupted world order and to consider the current period of international tension as akin to a new Cold War. This makes today's US-China rivalry an analogy to the US-Soviet geopolitical contest and foregrounds a known playbook of causes and solutions.

But inconsistencies feature in this. In the Cold War, citizens on both sides understood how victory by the opposing bloc would fundamentally transform their societies. Today's geostrategic rivalry carries no such ideological divide. In the language of economics, there are no separating hyperplanes. If US-China geopolitical rivalry were the driver of the current disruption in world order, it is difficult to explain some of the actions of the Trump administration: cutting off funding to USAID—a critical bulwark of America's soft power that elevates it against geopolitical rivals; turning away from open markets and multilateral trade at a time China proclaims offers of exactly those to hundreds of economies around the world who understand how they benefit from those; and taking tariff action and sanctions against America's own allies who had prepared to stand alongside it against its geopolitical enemies.

Instead, three large shocks have been key in shifting the international system away from rules-based multilateral order, and towards geoeconomics—the practice of economic statecraft by major powers—and towards a re-framing of the world's trade linkages as strategic interdependence.

3.1 The China Shock

The **China Shock** is the idea originally used in the US asserting that economic competition with China has stolen American jobs, hollowed out US industry, and devastated sections of middle-class America. This same language is now used elsewhere in the world as well to describe how China's manufacturing prowess has reached a scale and speed that domestic producers can no longer compete with imports from China.

It is important to recognise that the China Shock is not at all inconsistent with

the basic theory of comparative advantage. The China Shock is a statement about the distribution of gains within an importing nation; comparative advantage is a theorem of mutual net gains across nations. In how trade with China benefits end-consumers and downstream producers (who end up with greater access to higher-value, lower-priced intermediate inputs) but disadvantages competitor firms and industries, the China Shock proposition is, in another guise, simply a hypothesis about trade and inequality.

When those who end up disadvantaged from trade with China are also politically pivotal, resentment spills over into economic statecraft targeting not just China in particular but, more generally, trade and the multilateral system identified as having made China and other exporting nations so successful.

This reasoning has a further significance. Both academic literature and policy actions have focused on trade imbalance—the excess of imports over exports—as a sufficient-statistic causal variable for the China Shock. This has led to an important debate about whether it is sector-specific productivity differentials or macroeconomic savings and investment decisions responsible for trade imbalance.

In contrast, my characterisation of the China Shock is agnostic about trade imbalances. Even locations experiencing increased exports to China, running a bilateral trade surplus, can be subject to a China Shock. What matters is relative price, not quantity flows. If trade changes anything for certain, it is price ratios—otherwise, allocations would be invariant. And every change in relative prices must disadvantage some production factor somewhere in the importing economy.

From the perspective of the US or everywhere else in the world, the China Shock is a supply shock. The best response to that shock must be strategic and forward-looking, recognising the distributional impact of multilateral trade. At the same time, externalities matter too: when China exports, say, electric vehicles that replace fossil fuel automobiles in the Global South, the positive environmental spillover can be significant, and often is not fully revealed by volume flows alone.

3.2 The US Shock

If the China Shock is a supply shock, then the US Shock is a demand shock.

The US Shock refers to the raft of tariff actions, sanctions, and investment restrictions undertaken by the US, directed not at just a single adversary but generally against all other economies, both those who are geopolitical allies and those who are not.

Although rolled back in early 2026 by a US Supreme Court decision, Trump's 2025 Liberation Day tariffs lowered US consumer demand for exports from all

the rest of the world, including those from those who have long been America's ideological and geopolitical allies. (Since the Supreme Court ruling, the Trump administration has tried other means to regain that tariffs stance.) For instance, Vietnam, widely regarded to stand with the US against China was surprised in the event by a 46% tariff announcement. This was additionally significant in that Vietnam at that point had a third of its exports going to the US. Subsequently, the tariff rate was changed to a baseline of 20% for all VN's exports to the US but a heightened 40% on specific products. Tariffs were imposed even on economies like Singapore and South Korea, who had free trade agreements in place in the run up to 2025, and, some such as Singapore, were actually running bilateral trade deficits with the US.

While the initial impulses or driving disturbances for the China Shock and the US Shock might well be separate, their propagation mechanisms quickly intertwine. Heightened tariffs and restrictions against US imports from China, say, will lead to China's exports diverted to other economies. For third nations this exacerbates the China supply shock while at the same time they are already experiencing the US demand shock. By the beginning of 2026 US-China bilateral trade had fallen 33 per cent. In this same time, Chinese electric vehicle exports into ASEAN rose 75%, into Europe, 10%, and into Africa, over 200%.

Even as US-China rivalry can no longer claim to be apex disruptor of the rules-based multilateral order, what is coming more clearly into focus is that America has long-simmering grievances against the international system, for which it seeks compensation. Some of this is explained by China Shock related reasons. But yet others lie deeper in America's relationship with the international economic system.

3.3 The Multilateralism Shock

The US Shock on rules-based multilateralism goes beyond cross-border trade alone. As Posen (2025, p. 28) has written, the US's international actions track its changing role from "global insurer to extractor of profit". The reference to global insurer comes from how, after the Second World War, it was the US that took the brunt of building and supporting the rules-based multilateral order.

As that system succeeded and opened up economic opportunities for smaller, developing states everywhere else, the world's income distribution grew egalitarian. The distribution of capabilities became no longer unipolar, anchored by the overwhelming lead position the US occupied after World War 2. Instead that distribution flattened, away from unipolarity and towards multipolarity. Humanity's well-being of course improved in this process—indeed, that is the larger picture that embeds Asia's economic success. But for the US and indeed for other rich developed economies that too initially enjoyed disproportionate

shares of growth in economic prosperity, the cost-benefit ratio started to become less favourable (Gaspar, Hagan, and Obstfeld, 2018; Quah, 2026b).

Even if the US as the dominant hegemonic architect of the international system began to actively repudiate the rules-based multilateral order, other advanced nations have started to withdraw unreserved support. Geoeconomics manifests more and more with the emergence of industrial policy in rich nations everywhere, as advanced economies join in seeking advantage beyond that afforded by a level playing field. Strategic interdependence becomes leverage, with trade turning into contestation over chokepoints and balance of payments, rather than competition over productivity. Even if over 70% of cross-border trade follows still World Trade Organisation multilateral rules, since 2019 disruptions to trade imposed by individual nations have risen more than three-fold (Georgieva, 2023).

This systemic shock to Multilateralism is broad-based and does not identify with any one state alone. In theory, every state reckons it sees a way ahead by breaking away from rules-based multilateral order. But the systemic outcome then is that its detrimental effects are everywhere. The Multilateralism Shock bears the features of the classic Prisoner's Dilemma or, Armstrong and Quah (2026) call it, an Epic Fail outcome.

4 Conclusion

That Asia benefited as much as it has from rules-based multilateral order means it has the strongest incentive to restore enough of that international system to allow it and others around the world opportunity for economic prosperity. Navigating that system and then rebuilding enough of it will require forward-looking strategic thinking that acknowledges how Asia now faces the crossfire of the China Shock, the US Shock, and the Multilateralism Shock?

When rules-based multilateralism was being built after World War Two, it had the advantage of being conceptualised and supported by the world's undisputed hegemonic power, the US. Today, the need for an international economic system that works for all is stronger than ever, even as world order moves away from rules and multilateralism to geoeconomics and strategic interdependence.

(In my focus on trade and economics, we have not even discussed here—although it will be clear enough to readers—the world's shared challenges of AI regulation and the global climate crisis.)

How can the critical core functions of the international system be rebuilt with only non-hegemonic if strongly incentivised states—whether we think of those as smaller states generally or as Middle Powers (Quah, 2025, 2026b)? New research and policymaker engagement are needed, but almost certainly institu-

tions such as IMF will be central in the development of that work.

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