

The Evolving Development Landscape of Asia and Pacific: The International Economics of Strategic Interdependence

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The Asia and Pacific region's remarkable developmental success has been built in part on mutual gains generated by cross-border trade in goods and services. However, today's geostrategic competition and the fraying of multilateralism have created new structural constraints. The emerging international economics of strategic interdependence challenges traditional thought on trade openness, economic efficiency, and the benefits of price-taking and norm-abiding behavior. As a result, the region's small states must reconsider strategies based on their simply accepting prices and norms. The new order they could build should be based on coalitions of countries ready to cooperate to achieve common gains while being large enough without the hegemon to make a difference instead of sweeping treaties or grand institutional redesign.

Introduction

The Asia and Pacific region's continued economic growth and development now face headwinds, despite a remarkable history of success. Jobs and employment, finance, digitalization, trade and integration, sustainability and the environment, industrial policy (how to implement it and how to respond to it), and demographic change are among the region's most immediate and visible challenges. However, a new challenge has also emerged: disruption of the international economic system driven by geopolitical realignment and the fraying of multilateralism. At a minimum, this challenge calls for a reconfiguration of historical global supply chains and patterns of trade. More fundamentally, and in ways that are already becoming apparent, economic security requires a reassessment—that is, the place of economic efficiency and comparative advantage in economic policymaking relative to trust, resilience, and strategic maneuvering. Geopolitical risk, reflecting the intentional actions of bad actor nations, is becoming an increasingly important force shaping the international landscape.

Some of the risks facing the region and the world arise from what is often described as a rivalry between China and the United States or even a new Cold War, but that framing is misleading and obscures more than it clarifies.

In traditional international relations thought, such as Strassler (1996, Book Five, para. 5.88) or Waltz (1979, 72), small states are price takers, and their capacity to affect the global environment is generally not studied. However, the disruption of multilateralism gives small states a strong incentive to influence cross-national outcomes, and if not globally, then at least in ways that advance their own interests. They can do so either regionally or plurilaterally while seeking to shield themselves as much as possible from geopolitical disruptions elsewhere. To navigate this newly disrupted international system, countries in the region can pursue several strategies, including alignment, acquiescence, adaptation, and mitigation. China and India, as economic giants, are not representative of the region's agency and influence in this regard.

Asia and Pacific: Remarkable and Unexpected Success

The Asia and Pacific region's striking rise in the global economy occurred during a period when economic policymaking and geopolitical analysis aligned in advancing ideas of economic efficiency, comparative advantage, and political convergence (Armstrong and Quah 2026; Quah 2026b). Although consensus on those ideas was nearly global, their application was far from universal. The region's success was therefore both remarkable and surprising.

Table 12.1 shows that in 1990, the region's contribution to global economic growth was one-quarter, and by 2023, that share had more than doubled to two-thirds. Over the same period, inflation-adjusted per capita GDP increased more than five-fold, and total GDP grew nearly eight-fold. Extreme poverty—the share of the population living on less than 1 international dollar—fell from more than one-half to one-sixteenth of the population. Life expectancy at birth increased by a full decade, and adult literacy rose by 20 percentage points.

Table 12.1. Asia and Pacific Successes		
	1990	2023
Contribution to global growth (<i>percent</i>)	1/4	2/3
GDP per capita (<i>thousands of US dollars</i>)	1.6	9.1
GDP (<i>trillions of US dollars</i>)	5.5	40
Total population (<i>billions</i>)	3.2	4.4
Working-age population (<i>billions</i>)	2.0	2.8
Employment (<i>billions</i>)	1.6	2.2
Extreme poverty (<i>percent</i>)	52	6.5
Life expectancy (<i>years</i>)	66	75
Adult literacy (<i>percent</i>)	71	91

Sources: IMF; International Labour Organization; United Nations Educational, Scientific, and Cultural Organization; World Bank, World Development Indicators; and author's calculations.

Systemic diversity and uneven success in Asia and Pacific

Even at this aggregate level, some emerging risks are already apparent. The working-age population increased from 2 billion to 2.8 billion, but employment grew more slowly, from 1.6 billion to 2.2 billion, and thus growth and development failed to generate a corresponding increase in employment opportunities for the region's working-age population.

This mismatch between employment and demographic trends becomes even more pronounced at the country level. Across the region, the dependency ratio—the ratio of the population not of working age (younger than age 16 or older than age 65) to the working-age population—has been constant at approximately 36–37 percent over the past three decades. Yet this apparent stability masks substantial variation across countries. Some of the region's smallest countries and those in its northeastern area are undergoing sharply rising dependency ratios and declining fertility rates.¹ In Singapore, the share of the population ages 65 and older increased from 13 percent of the total population in 2015 to 21 percent in 2025 and is projected to reach 25

¹ Data are from the United Nations Educational, Scientific, and Cultural Organization, UN World Population publications, and the International Labour Organization.

percent by 2030. In Korea, the share reached 20 percent in 2025 and is projected to rise to 34 percent by 2040 and 40 percent by 2070. In Japan, 28 percent of the population was ages 65 and older in 2025, when the median age was 50. China's share was only 7 percent in 2000 but had reached 16 percent by 2025.

The region's overall dependency ratio has remained constant over the past three decades despite these demographic shifts, reflecting the offsetting effect of younger and growing populations elsewhere in Asia and Pacific, particularly in India, presenting a different challenge. India has experienced a demographic bulge of approximately 500 million in its working-age population since 1990, but employment growth has not kept pace. Over the same period, total employment grew by only 286 million, equivalent to just under 60 percent of the increase in the working-age population.

This regional mismatch between employment and demography compounds the development challenge. Even if productivity were unaffected and populations could move frictionlessly across national borders, the region's long-term demographic trends, calibrated to current population dynamics, would imply a steady-state decline of 7.5 percent relative to trend.² More realistically, productivity trends will slow, and populations will be unable to move freely across the region. Therefore, the 7.5 percent decline should be viewed as a lower bound, with the actual impact likely to be larger.

Asia and Pacific: large but also small

Table 12.2 shows the substantial variation in population across the region's countries. Considerable policy attention appropriately focuses on the economic transformations of China and India, but countries with populations in the billions are exceptional. In 2023, the median country in the region had a population of only 30 million, meaning that half of the region's countries were roughly the size of Malaysia (about 33 million) or smaller. Nearly 80 percent of the region's population is concentrated in the top 10 percent of most populous countries, so the distribution has a long left tail, with a mean-median ratio—a standard measure of inequality—of 3.5. In 2023, the mean-median ratio had already declined from 4.0 in 1990. The global distribution is even more skewed toward small states (Table 12.2). Compared with Asia and Pacific, the world's median country is smaller, and population inequality is greater, while a similarly large share of the global population is concentrated in the top 10 percent of most populous countries.

Table 12.2. Asia and Pacific Population versus World Population

Asia and Pacific				World		
Year	Median Population (millions)	Mean-Median Ratio	Top 10% (percent)	Median Population (millions)	Mean-Median Ratio	Top 10% (percent)
1990	19	4.2	71	4.5	6.0	75
2023	30	3.5	77	9.5	4.3	73

Sources: UN World Population Prospects 20xx; and author's calculations.

Note: Population figures are across countries. The mean-median ratio is a standard measure of inequality. "Top 10%" denotes population share of the top 10 percent of the cross-section of countries.

² Analysis in Annex 12.1 derived this in a model of McKendrick–von Foerster distribution dynamics. Two assumptions were critical: the aging population does not influence productivity trends adversely, and reallocation across the region's labor markets is frictionless.

Population size and economic performance (GDP per capita measured at market exchange rates) are correlated both across the region and across the world. Historically, smaller states in the region tended to have higher per-capita incomes than larger economies. The same relationship held globally but was more pronounced in Asia and Pacific. In 1990, large economies such as Bangladesh, China, India, Indonesia, and Pakistan had relatively lower incomes, while income in smaller states such as Brunei, New Zealand, Singapore, Switzerland, Sweden, and the Gulf states were higher. Over time, however, per-capita incomes in the region's larger economies—China and India—increased, weakening the relationship between size and economic performance both within the region and globally. Although the negative correlation persists in Asia and Pacific, even at half its original magnitude, it has nearly disappeared at the global level.

Table 12.3. Asia and Pacific and the World: The Dynamic Effects of Size

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

Sources: Author's calculations from IMF WEO, World Bank, and UN World Population Prospects.
Note: The correlations are between population and GDP per capita measured at market exchange rates.

Across the world, smaller economies also historically tended to be more successful, though the United States has long been an outlier because it has a large population and high per-capita income. As in Asia and Pacific, however, the rise of larger economies has caused the historical negative correlation between size and economic performance to nearly disappear.

If this dynamic continues, the region's smaller economies could start lagging the larger states in both growth and incomes. In economic reasoning, many factors predict the success of large economies, including increasing returns to scale, specialization and diversification, industrial complexity, and the ability to undertake research and development at scale and thus advance technology.

By contrast, small states have limited populations and thus smaller workforces. Given the nature of modern production, they will invariably produce too much of what their people can produce and not enough of what they need. In such circumstances, cross-border trade becomes even more important. Large economies can contemplate economic isolation if international circumstances compel them to do so, but they will be poorer at the margin as a result while continuing to function. Conversely, small states succeed economically and geopolitically when they can navigate the international environment successfully.

Asia and Pacific and World Order: Rules-Based Multilateralism

The dynamics in Tables 12.2 and 12.3 can be summarized succinctly. In the modern era, all countries in Asia and Pacific were small states. Their markets were small because incomes were low, populations were small, or both. Those economies that eventually grew did so by learning to trade internationally,

which overcame the limitations imposed by population size. Larger economies can leverage economies of scale, specialization and diversification, and technology, but small states remain structurally dependent on the international system that prevailed through most of post–World War II period: an open global economy governed by clear rules that neither favored nor disadvantaged the region’s economies or smaller states. Because small states have more difficulty self-insuring and cannot project coercive power, their prosperity and stability depend on the predictability of the rules-based international order.

That international system has become less hospitable both to cross-border trade and small states. Understanding the drivers of that change can help the region’s smaller states navigate the resulting disruptions.

The Three-Shock Challenge

The international system that prevailed through most of the 80 years after World War II—and under which Asia and Pacific achieved its development success—had several defining features. It was a rules-based order organized around multilateralism, centered on US unipolarity and thus hegemony, and it promoted liberal norms and values.

The system was never perfect. The United States acted as benevolent hegemon but sometimes broke the rules without seeking either prior approval or subsequent forgiveness. Some countries believed the system disadvantaged them while favoring others, but the system never promised to right historical wrongs or deliver equality. Even when major powers claimed to provide global public goods, the benefits they received were often at least as significant as their contributions. Overall, postwar circumstances generally aligned forward-looking self-interest with global citizenship and broader public-spiritedness. The result was an international system that proved effective, eventually giving rise to globalization, an international monetary and financial system, and global institutions that served as arbiters and repositories of rules.

That system has evolved from one characterized by benevolent hegemony to one that provides fewer global public goods, increasingly favors the exercise of power over a rules-based order, and is marked by more unilateral action and less multilateral consensus. Trade has become a contest for control over strategic choke points and balance of payments positions rather than a competition based on productivity. Although more than 70 percent of world trade might still take place under World Trade Organization multilateral rules, trade disruptions imposed by individual countries have more than tripled since 2019 (Georgieva 2023). The international monetary system’s single-platform model is no longer viewed solely as a pathway to achieving greater efficiency and economies of scale in the provision of global insurance; it has also become viewed as an instrument of geopolitical coercion through sanctions.³

Three features of the previous order are especially important for Asia and Pacific: a level playing field for engagement and exchange, peaceful dispute resolution, and cooperation in addressing shared challenges. These 3 pillars form the core of multilateralism. Their erosion poses the greatest risk to the region’s smaller states, and for them to respond effectively requires understanding the shocks that are disrupting these three pillars.

³ Different descriptions of these changes are available, especially in the International Relations and policy scholarship literature: Ikenberry (2026) provides a valuable summary of the various descriptions of these changes. Recent accounts in economics include, among others, Armstrong and Quah (2023); Clayton, Maggiori, and Schreger (2026c); Gopinath and others (2025); Mattoo, Ruta, and Staiger (2024); Posen (2025); and Quah (2026a, 2026c, 2026d).

Three distinct but interacting shocks have been important proximate causes of this disruption: the China shock, the US shock, and the multilateralism shock.

The China Shock: Scale, Speed, and Competition

Cross-border trade has long been recognized as generating mutual gains at the national level through the logic of comparative advantage. However, relative winners and losers can emerge within any economy. International win-win outcomes do not guarantee domestic win-win outcomes, and much of the analysis of trade and inequality is built on this insight. For cross-border trade to have any effect, it must alter the vector of relative prices. But any change in relative prices means that some factors of production will face adverse price movements: relative prices cannot increase for every commodity.

When production factors and workers can move frictionlessly across sectors and occupations, from those where relative prices have fallen to those where they have risen, the gains from cross-border trade are magnified. When such adjustment cannot occur, unemployment and economic stagnation emerge in adversely affected sectors, even as sectors that benefit experience stronger economic performance. How widespread these negative effects emerge as equilibrium outcomes and how long they persist depend on local geography, the pace of domestic adjustment, and the scale and speed of productivity improvements in competing imports.

When these dynamics were observed in the United States, they became known as the China shock (Autor, Dorn, and Hanson 2013; Kennedy and Mazzocco 2022). Nothing in this narrative is unique to the US, policymakers and analysts elsewhere have adopted the same terminology.

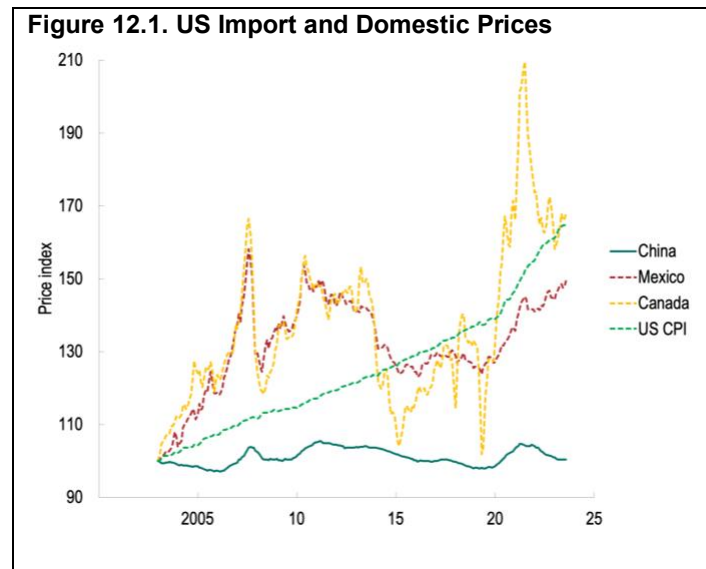
Reasserting the benefits of comparative advantage does not negate reactions to the China shock. The problem lies in the combination of the effectiveness of the exporting country (China) and the economic adjustment mechanisms operating in the importing economy (the European Union, Indonesia, the United States, and other jurisdictions where the China Shock narrative has emerged). The China shock is therefore consistent with economists' understanding of comparative advantage.

Empirical studies of the China shock typically use the quantity of imports from China as the causal variable and, in effect, treat the trade balance as a key indicator. This reasoning overlaps with international macroeconomic analyses, in which current account surpluses and deficits are caused directly by aggregate saving and consumption decisions, not productivity and competition (Gourinchas and others 2024). However, the description of the China shock does not refer to trade balance accounts at all. Its underlying driver is a change in relative prices. Figure 12.1 provides strong evidence of that change. The reasoning does not depend on how much changes in relative prices also affect the current account balance.

From the perspective of other nations, the China shock is a supply shock, and the most effective responses will recognize it as such. Beyond suggesting that policy should focus on prices rather than quantities, and that the current account balance could therefore be a distraction, this reasoning carries another key policy implication. When confronted with a China shock, measures intended to contain the exporting country or weaken its economic performance cannot be unambiguously beneficial or harmful to domestic well-being. Policymakers must instead weigh the distributional trade-off between lower import prices, which benefit consumers and downstream domestic industries, and the harm those same prices inflict on firms and workers in directly competing sectors.

The US Shock: National Security and Hegemonic Power

The China Shock can be understood as the inadvertent consequence of an exporter nation's pursuit of increased productivity and higher profits. In international relations terms, that interpretation casts the China shock as similar to a large nation's strong use of economic aggression to advance its position. By contrast, the US shock is an exercise in economic statecraft or geoeconomics.⁴ Unlike shocks such as tsunamis, earthquakes, or floods, which arise from natural events, the US shock involves intention.⁵



Source: Quah 2026b.

Note: The graph shows import prices of imports into the United States from Canada, China, and Mexico, along with the US consumer price index. Over the 20 years shown, import prices from China remained flat, ending the period just 0.5 percent higher than at the beginning. Import prices from Canada at times recorded higher inflation than the US consumer price index and ended the period with prices 68 percent higher than at the start. Imports from Mexico followed a similar though less extreme pattern, with prices ending 49 percent higher than at the start of the period. The US consumer price index inflated by 65 percent over this sample. CPI = consumer price index.

At the end of World War II, the United States began building what Ikenberry (2026) calls the liberal international order. This order was rules-based, founded on international law and multilateral principles, coordinated through international institutions, and led in a unipolar but benevolent manner by the world's most powerful nation, the United States.

In broad terms, this system conforms to the principles of hegemonic stability theory (Kindleberger 1996), which holds that the world is more stable when a benevolent hegemon oversees it. In practice, the hegemon acted as consumer and banker of last resort, provider of global security, issuer of the world's reserve currency, and supporter of the multilateral international architecture. It warned the rest of the world about revisionist nations

⁴ Contrary to common belief, "geoeconomics" does not refer to the economic counterpart of the broader and more encompassing term "geopolitics." In referring to the US shock and in the scholarly literature more generally (for example, Baldwin 1985; Blackwill and Harris 2016), geoeconomics focuses on a hegemon's decision-making and means "the use of economic instruments to accomplish geopolitical objectives" (Blackwill and Harris 2016). Thus, geoeconomics is the study of how a hegemon pursues and optimally achieves its geopolitical goals using economic tools ("a means of working the US's geopolitical will in the world" (Blackwill and Harris 2016, 99)) and is therefore also called economic statecraft. In this sense, geoeconomics is subordinate to geopolitics, not its economic counterpart. See also footnote 6.

⁵ Modern technical versions of geoeconomics (for example, Clayton, Maggiori, and Schreger [2026a, 2026c]) correctly maintain that distinction when studying how a hegemon shapes the decisions of foreign entities and thereby exercises and advances its hegemonic power. By contrast, an international economics of strategic interdependence also encompasses how smaller nations organize themselves in response to hegemonic power. Of these two sets of actions, only the first falls within geoeconomics, while both, together with the general equilibrium outcomes of such interactions, make up an international economics of strategic interdependence. See also footnote 6.

that sought to undermine the rules-based multilateral order and took action against them. It provided global public goods and leadership in activities that the economics of increasing returns to scale suggests are most efficiently concentrated in a single agent.

However, as the rules-based multilateral order succeeded and created economic opportunities for perimeter nations, the income distribution across nations became more equal. In the 1950s, the United States accounted for 40 percent of the global economy, but that share has since fallen to 25 percent. The United States is no longer as dominant, and unipolarity has given way to multipolarity. Prosperity increased overall and became more broadly shared, which improved humanity's well-being, but it also meant that the cost-benefit ratio for the hegemon turned unfavorable (Gaspar, Hagan, and Obstfeld 2018; Quah 2026c).⁶

Although the direction of change is consistent with predictions, the elasticity of the hegemon's response to this reversal has been surprising. Rather than simply retreating from its historical role in supporting rules-based multilateralism, the hegemon actively sought to rewire the international system to its own advantage.

This momentum manifested in a range of US actions, including tariffs, sanctions, extraterritorial interventions, and withdrawals from long-standing agreements. As the hegemon sought to become more isolationist and focused on its own interests, it also projected power abroad through actions that contravene principles of national sovereignty and territorial integrity.

Unlike conventional narratives on the geopolitical actions of the United States, this interpretation focuses on the hegemon's place in the world rather than US-China geostrategic rivalry, although that last is certainly consequential. But the hegemon's tariff and trade actions have targeted many countries that the US administration judges to be acting against American interests, not just China. The US shock therefore arises from the relationship between the United States and the rest of the world, not simply from its relationship with China. A Cold War analogy therefore likely obscures more than it clarifies. For Asia and Pacific countries not on the front line of the tensions between the two countries, many other challenges should take priority.

Where US-China rivalry matters is not its substance but in its effect on behavior. In the United States, geostrategic competition heightens attention to national security. Such a political environment makes it easier to pursue more economic statecraft, whether economically justified or not. Under national security imperatives, economic statecraft no longer targets traditional domains of economic competition. Major powers shift their attention from improving productivity relative to their rivals to securing choke points against them. In doing so, they transform competition that can potentially improve overall well-being into contestation that produces lose-lose prisoner's dilemma or epic fail outcomes (Armstrong and Quah 2026).

Policy implications for the region's smaller states follow from the analysis. In the narrow sense that tariffs and sanctions restrict markets, the US shock can be understood as a demand shock, just as the China shock is a supply shock. Arguably, the more critical conclusion is that the US shock is driven by long-term trends, not notions of whoever leads the current administration. The region's countries need to recognize that this demand shock differs from those hypothesized in the study of business cycles. The US shock is instead a long-lived demand shock.

⁶ Related, Obstfeld (2024) documents how specific economic developments such as falling competitiveness, disruptive capital movements, and growing financial pressures on currency can undermine support for hegemonic presence generally, if not multilateralism specifically.

The Multilateralism Shock: Cost-Benefit Calculation for Global Leadership

The cost-benefit calculations for the United States also apply to other major advanced economies and to countries that consider themselves middle powers.

In the early years of rules-based multilateralism, the United States occupied an overwhelming unipolar position that made it easy to support the system (implied that a cost-benefit ratio allows it) or, as Ikenberry (2005) wrote, to be “a producer of world order (p. 133).”

When other states ascend to become the power that produces world order, whether their calculations will differ is an open question. Optimistic observers suggest that middle powers will enter the role with less ideological baggage and more vivid memories of what the rules-based multilateral order can deliver. However, the basic economic calculation will still hold. Like falling dominoes, each replacing the one before it, the same cost-benefit logic will apply. As a result, no rules-based multilateral order that requires hegemonic resources can be sustained permanently in the long term.

Such partial equilibrium actions 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 world's most urgent problems have become increasingly global in nature, and climate change, pandemics, and financial instability are among the most pressing. These challenges cannot be addressed through unilateral national action but instead require multilateral cooperation. The growing gap between supply and demand in the multilateral system creates additional stress for small states.

Navigating the International Economics of Strategic Interdependence

Asia and Pacific small states face the challenge of responding to these emerging disruptions. Historically, successful strategies have drawn on traditional approaches to build economic security: because small states are internationally price takers and norm abiders, they respond best to economic disruption through domestic reforms that raise productivity, become more essential and indispensable in international engagement, and improve economic efficiency through the comparative advantage mechanism in open trade.

However, in a world dominated by China, the United States, and multilateralism shocks, traditional strategies can have adverse unintended consequences. Trade openness can be associated with increased foreign supply and reduced foreign demand and can therefore raise unemployment and heighten domestic dissent. Price taking and norm abiding can leave small states vulnerable to pressure by major powers and with no way to respond. If the small state tries to adopt a resilience-building strategy of raising domestic productivity or making itself more indispensable to the international trading system, that might just further increase incentives for foreign action against it, and thus paradoxically expose its vulnerability.

Whether pursuing the opposite of traditional strategies will produce better outcomes is unclear. A small state might conclude that if it does not accept prices as given, then it should apply retaliatory tariffs. But that leads to a downward spiral in which tariffs rise without generating positive effects on demand for domestic production. Similarly, bluntly rejecting the norms of a potentially antagonistic major power without first laying the necessary groundwork can invite punitive economic statecraft. A small state might also conclude that the alternative to trade openness is autarky (economic self-sufficiency and closed borders). But it will quickly discover that it cannot diversify sufficiently like a large economy can and will soon realize that autarkic restrictions excessively constrain its own economic prospects.

A Basic Tool Kit for Economic Diplomacy: Align, Acquiesce, and Adapt and Mitigate

The international economics of strategic interdependence can be understood as the study of how small states navigate this landscape and the outcome their actions produce.⁷

To move beyond the stark binaries implied by traditional strategies, small states can consider a mix of alignment, acquiescence, and adaptation and mitigation. Alignment involves taking sides or, more generally, accepting the bundles of attributes—such as trade and technology—offered by a great power. Acquiescence involves taking actions to placate major powers in an effort to stabilize the international space available to smaller states. Adaptation seeks to minimize the symptoms of disruption caused by major powers and mitigation addresses their causes.

Alignment alone is potentially optimal in a zero-sum world. For Southeast Asia, Khong and Liow (2025) analyze changes in the alignment of individual small states in the context of US-China rivalry. What matters is not the substance of the rivalry itself but the behaviors it produces.

Outside a zero-sum environment, however, small states should reject the binary choice of alignment and instead develop a portfolio of relationships. The decision-making horizons of great powers and small states do not necessarily coincide. Great powers might seek long-term alignment because it allows them to organize and consolidate spheres of influence. However, small states might align only opportunistically to address a specific challenge and then move on to address the next problem. In some issue areas, such as green and renewable energy development, one partner country could offer stronger opportunity. In others, such as governance standards for AI and digital technologies, a different partner country could be important. The region's countries can also deepen ties with regional bodies such as the Association of Southeast Asian Nations to build a diversified dynamic network of relationships without global hegemony or, more generally, in plurilateral groups of countries without a hegemon. (Buzan 2011, 2023; Herz and Ho 2026; Quah 2026a, 2026c). This idea can be compactly described as a “G-minus” world, an international order where great-power leadership is optional.

As the multilateralism shock has unfolded, universal multilateralism has stalled. However, smaller groups can work toward restoring at least a rules-based 3-pillar multilateral order. The new order need not be fully multilateral; it need only be multilateral enough. Nor does such an order require a hegemonic leader as long as the order is not large and sprawling. Instead of a world order built around China and the United States or the Group of Seven, the new system can comprise G-minus groupings.

The region's small states can collaborate through plurilateral networks on specific areas such as sustainable finance, digital governance, and regional supply chains. They can also leverage specialized expertise to help shape standards in areas such as financial clearing and settlement systems (for example, Project mBridge and Project Nexus). For such expertise and such technological innovations, small states are just as capable as large ones.

⁷ In the context of this chapter, the international economics of strategic interdependences, not geoeconomics, is the counterpart to geopolitics. Strategic interdependence refers to general equilibrium and systemic observable consequences for the international economy that extend beyond the defensive or offensive single-agent decision-making strategies emphasized in geoeconomics. Such potential complications include the operating characteristics of a leaderless world order, the responses available to lesser powers when a hegemon shifts from providing public goods to extracting economic surplus, and the conditions under which smaller states should form flexible coalitions for economic security against natural shocks and the intentional actions of major powers. Clayton, Maggiori, and Schreger (2026b) seek to generate equilibrium systemic predictions and therefore go beyond geoeconomics by incorporating the responses of smaller nations to the hegemon's economic statecraft. However, those smaller nations act non-cooperatively, in contrast to some of the multilateral strategies considered in what follows. See also footnotes 3 and 4.

Managing strategic interdependence across economies requires a sophisticated layered approach to economic diplomacy, understood as economic statecraft for small states. The first layer might well be alignment, qualified in the manner described previously. The second layer could be acquiescence: the temporary acceptance of necessary constraints to create space for longer-term recalibration. The third layer of adaptation and mitigation draws inspiration from the global climate crisis. All states are small when facing environmental change, yet they can adapt for the global climate crisis. They can build resilience by treating the symptoms of environmental change (relocate populations away from vulnerable areas and change agricultural practices, for example), and they can mitigate by addressing its causes (such as reducing carbon emissions and shifting energy use from hydrocarbons to renewable sources). The same logic applies for managing strategic interdependence. Small states should make their domestic economic structures more resilient to the actions of great powers while reducing their exposure to those powers through appropriate regional or plurilateral groups. Economic relationships can be rewired to incorporate redundancy and resilience, diversifying supply chains away from known choke points and single points of failure, even if doing so entails loss of economic efficiency.

Asia and Pacific small states should build incentive-compatible coalitions rather than pursue universalist arrangements. Durable cooperation does not require sweeping treaties or grand institutional redesign that might be sufficient but not necessary for rules-based multilateral order. Flexible and overlapping arrangements based on only inadvertent cooperation can prove more resilient than formal structures that great powers abandon once their interests diverge.

Asia and Pacific small states should move toward a flexible topology of networks that are incentive-compatible, G-minus, and multilateral enough (Quah 2026a, 2026c), but not because a G-minus, multilateral-enough order is aspirational. Rather, it reflects the reality that the original rules-based multilateral order is not incentive-compatible and is no longer available. Unless the old rules of multilateralism are rewritten, major powers will have no incentive to continue supporting it over the long term.

Conclusion

The Asia and Pacific region's growth and development over the past 80 years have been remarkable and, in many respects, unexpected. This overarching trajectory of success comprised differentiated arcs traced out by states of different sizes. Yet the progress of small states, which has underpinned a large part of the region's progress, is now at risk as the world order shifts from rules-based multilateral openness to geoeconomics and strategic interdependence.

The region's small states must continue to strengthen domestic resilience and leverage supply chains, but they can no longer rely solely on the passive strategies of price taking and norm abiding. Instead, they need to adopt a proactive approach to economic diplomacy, drawing on strategies of alignment, acquiescence, and adaptation and mitigation. By working together in incentive-compatible, G-minus, multilateral-enough diversified groups, Asia and Pacific small states will be better positioned to navigate the emerging international landscape of strategic interdependence.

Annex 12.1. McKendrick-von Foerster Distribution Dynamics for Asia and Pacific demography

A simple calibration shows a 7.5 percent decline in steady-state levels of per capita GDP across the Asia and Pacific region if current demographic trends continue.

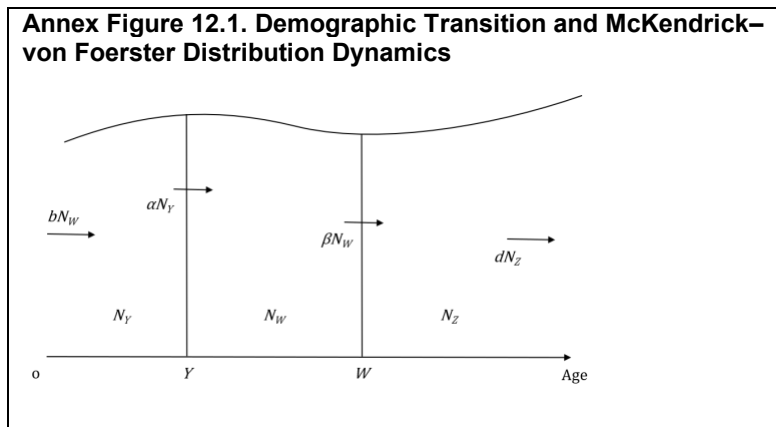
An economy's demography is depicted by Annex Figure 12.1, with the horizontal axis denoting age. Two threshold values Y and W on this axis are significant: with $0 < Y < W$, the value Y is the upper age limit of young individuals before they commence work, while the value W is the upper age limit of 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.

Annex Table 12.1.1. Summary of Demographic Transition and McKendrick–von Foerster Distribution Dynamics

	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	$\beta N_W - dN_Z$

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 1 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, $\beta N_W - dN_Z$.



Source: xx.

Annex Table 12.1.1 summarizes the demographic transition as McKendrick–von Foerster 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 recognized as the dependency ratio. Differentiate with respect to time to obtain the dynamics of working-age weighted ratios:

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

In steady state $\dot{r} = \dot{y} = \dot{z} = 0$, so that

$$y^* = \frac{\beta - \alpha \pm \sqrt{(\alpha - \beta)^2 + 4\alpha\beta}}{2\alpha}$$

and

$$z^* = \frac{\beta}{d - \beta + \alpha y^*},$$

with the implied $r^* = y^* + z^*$.

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

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

This expression shows that even if productivity θ remains unaffected, higher dependency ratios will dilute per capita GDP from the combination of fewer working-age workers and more dependents.

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

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

(that is, what the previous more intricate expressions collapse to upon imposing that the working population must also be in steady state, given steady state for the young and the aged).

The region's demography is 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. However, over time, coupled with falling old-age mortality d , increases the overall dependency ratio r^* .

Next, draw on data from OECD, World Bank, and the United Nations to calibrate the model. Measured total fertility rates across Asia and the Pacific are about 1.5–1.7, suggesting an approximate birthrate $b = 0.018$. Old-age mortality is approximately 10 percent. The standard IMF and 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 with the current dependency ratio of 0.36 means that at a fixed average productivity, per capita GDP in steady state will be $1.36/1.47 = 0.925$ times the current value, that is, lower by 7.5 percent.

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

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