

Commentary: Economics cannot be relied on to bring about peace

Commentary: Small states are the best bet for keeping world at peace

Economic interdependence was once expected to guarantee peace. It now fuels resentment, says economics professor Danny Quah from the Lee Kuan Yew School of Public Policy.

SINGAPORE: For decades, a reassuring belief has shaped international politics: Economic interdependence makes war costly. When capital flows freely and supply chains crisscross borders, nations should reject conflict because of the damage to themselves.

Yet, America's experience of the "China shock" well illustrates how rivalry does not dissolve, but can sometimes intensify with integration.

Trade with China has generated enormous aggregate benefits to the US, but concentrated loss in specific parts of the population, displacing workers and hollowing out some US industries .

The anger of those sidelined by globalisation has fuelled populist movements and turned economic grievance into nationalism and protectionism.

Today, geopolitics and economics no longer jointly drive greater integration. They are working together to pull the world apart.

The United States, long the architect of the rules-based open global economy, is now actively redefining and bending the rules it urged the world to follow. Tariffs, sanctions, industrial policy, and technology restrictions have become central instruments of US international strategy.

The strategic reality is no longer about who has the most power to keep the system going but who has the most incentives to do so.

GULF STATES AND THE WAR ON IRAN

Small states do not have the luxury of going it alone when rules collapse. Unlike great powers, they cannot absorb higher costs of disruption, coerce others instead of using diplomacy nor reshape institutions to suit their interests.

A world governed by raw power rather than rules is an existential challenge for small states. This vulnerability creates a powerful incentive to preserve sufficient cooperation for stability.

Perhaps what encapsulates both this vulnerability and the agency of small states right now is the US-Israel war on Iran.

The security guarantees which are so important to the Gulf states' economies have been severely challenged, but the countries cannot unilaterally determine the terms of engagement.

To be effective in the geopolitical arena, therefore, small states need to deploy a different strategic logic. Oman and Qatar demonstrated how small states exercise influence: Muscat mediated indirect nuclear talks between the US and Iran in 2025 and 2026 before the war started, while Doha is a key mediator of the prevailing US-Iran ceasefire agreement.

The strengths of small states lie in working with institutions, organising coalitions, and aligning on incentives. Such collective effort can confer legitimacy to actions that might otherwise come across as just great power unilateralism.

ASEAN'S SKILLFUL BALANCING ACT

Southeast Asia provides some good examples of small states' skilful manoeuvring.

The Association of Southeast Asian Nations (ASEAN), for instance, led the creation of the world's largest free trade agreement, the Regional Comprehensive Economic Partnership (RCEP). In addition to bringing economic benefits, RCEP also increases rules-based engagement in the Asia-Pacific by deepening trade between China and several traditional US allies, namely Australia, Japan, South Korea, and New Zealand.

Southeast Asia worked equally hard to maintain US engagement in the region, by convincing the US to become a key architect of the Trans-Pacific Partnership (TPP) and thus maintain strategic influence in the region and balance a rising China. Even after US President Donald Trump pulled the US out, the revised deal – now the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – is still the fourth-largest free trade agreement in the world.

It is no mean feat that Southeast Asian countries have largely managed to avoid "choosing a side" in the US-China contest.

Almost half the ASEAN member states are party to the South China Sea dispute with China. Likewise, the region was badly hit by Mr Trump's tariffs and is now being threatened with a new round of tariffs over allegations of forced labour. The US war in Iran has also put many key industries, from agriculture and manufacturing to tourism and healthcare, under [acute strain](#).

Despite these considerable provocations and pressures, Southeast Asian nations have maintained good relations with both the US and China. The region's economic growth will continue to depend on its ability to effectively strike that balance.

THREE REALITIES FOR SMALL STATES

The lessons go beyond Southeast Asia for all small states.

First, small states should abandon nostalgia for the postwar order and focus on what works. The goal is not to restore an idealised past, but to preserve enough openness and predictability to allow international engagement and security.

Second, small states should resist one-dimensional narratives of an ideological struggle between democracy and autocracy akin to that of the Cold War. More helpful is to acknowledge that the world faces a confluence of shocks: the China shock, the US shock and the increasing weaponisation of economic interdependencies.

Recognising this complexity creates strategic space. Smaller states need not define themselves through alignment with either camp and can focus on the deeper threat: the erosion of rules, diplomacy and cooperative norms.

Third, small states should build coalitions around shared incentives, rather than universal consensus. Durable cooperation does not necessarily require sweeping treaties, grand institutional redesigns or the elimination of great power rivalry.

More can be achieved through practical cooperation around shared interest.

Take the World Trade Organization (WTO) and its highest court for settling international trade disputes. The WTO Appellate Body has been paralysed without a quorum, with the US blocking new appointments since 2019. To bypass this deadlock, a subset of WTO members created the Multi-Party Interim Appeal Arbitration Arrangement (MPIA) as an alternative mechanism for dispute settlement. Provided they agreed to follow MPIA rules, others were welcomed to join but under no compulsion to do so. In five years, MPIA membership more than tripled.

Flexible and overlapping arrangements are often more resilient than formal structures that great powers abandon once interests diverge.

BEST BET FOR WORLD PEACE

The decades after 1945 were historically unusual. For a time, economic integration and geopolitical strategy appeared mutually reinforcing.

That convergence has ended. The same economic interdependence once expected to guarantee peace now fuels resentment and rivalry among major powers.

But incentives have not disappeared. They have shifted.

Today, it is small states, not great powers, that have the strongest incentive to defend cooperation and preserve peace. Small states cannot dictate outcomes but they can alter the odds. In today's increasingly fractured international system, that makes small states the best feasible bet for keeping the world at peace.

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