

## Southeast Asia's Cooperative Advantage

*The region, a major beneficiary of the rules-based system, has a strong incentive to repair it*

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Asia's economic progress since the end of the Cold War has been nothing short of breathtaking. In little more than a generation, per capita GDP has increased more than fivefold, and total GDP has expanded eightfold. Extreme poverty, measured as the fraction of the population living on less than one international dollar a day, has fallen from more than half to one-sixteenth. Life expectancy at birth rose a full decade. Adult literacy increased by 20 percentage points.

Such accomplishments have extended across diverse economies and populations, from giants like China and India to city-states like Singapore. The common denominator has been gainful engagement with a postwar rules-based multilateral world order that increased trade and openness and integrated the global economy.

Asia as a whole has prospered, but Southeast Asia—11 countries with a combined population of more than 700 million—has benefited the most. Without the rules-based order, the region's relatively small and isolated economies might have suffered the consequences of having larger, more powerful neighbors. Now, as rules-based multilateralism gives way to geoeconomics and strategic interdependence, Southeast Asia will be hit hard. But that also means the region is strongly motivated to find ways to deal with the fracturing global economy.

A return to the old rules-based multilateral order is unlikely. Southeast Asian states don't have the economic or strategic heft to force change unilaterally, and larger, more powerful stakeholders no longer see the benefit of an order that, paradoxically, they themselves built. An alternative approach—more likely to succeed—is a system that is “multilateral enough.” What does this mean, and how might such a system work for Southeast Asia?

### **Southeast Asia's success**

To answer that question, we must first look at how the rules-based multilateral order and its accompanying globalization fueled the region's success. Three pivotal features of the system were a level playing field, peaceful dispute resolution, and cooperation in the face of shared challenges. These features allowed Southeast Asian nations to overcome their inherent disadvantages: small domestic markets, capable but not obviously superior militaries, and lack of advanced technology.

A level playing field flattens the distribution of geopolitical power: When everyone is treated equally, scarce resources need not be wasted on inefficient and costly displays of power. Peaceful dispute resolution lifts substantive issues above zero-sum exercises of might and aggression. Collaboration to address shared challenges makes the system more efficient and avoids duplication as each state contributes what it does best.

In different circumstances, Southeast Asia could easily have been left geopolitically vulnerable, isolated from technological advances and unable to benefit from economies of scale. But world markets were receptive to export-oriented and manufacturing-focused small economies whose established supply capacity and transportation infrastructure were able to expand rapidly.

“Factory Asia” emerged from Southeast Asia, together with Japan and Korea, and—beginning in the late 1990s—China.

International accords were critical to this process. In 1996, the Information Technology Agreement, mediated by the World Trade Organization (WTO), eliminated tariffs on IT components and products. This allowed Indonesia, Malaysia, the Philippines, Singapore, and Thailand to emerge as the world’s manufacturing and assembly hub for mass-produced semiconductors, hard drives, and consumer electronics. Starting in 2005, after a 10-year phaseout of advanced-economy protectionist import quotas on textiles and apparel, Cambodia, Vietnam, and Indonesia attracted considerable foreign direct investment for those industries.

By embracing open regionalism—the idea that regional trade deals can be building blocks for global integration rather than barriers to it—Southeast Asia acknowledged the advantages of deep engagement with the international system. Today, trade within the Association of Southeast Asian Nations (ASEAN), which forms an integrated economic community, amounts to 25 percent of GDP, while trade with the rest of the world fluctuates between 80 and 90 percent. By contrast, trade among EU members exceeds 60 percent of the bloc’s GDP, more than its external trade of 40 percent.

These achievements are now at risk as the international system shifts toward strategic interdependence and geoeconomics, with economic tools serving geopolitical goals. Three cascading shocks have driven the change.

### **The China shock**

China’s 2001 entry into the WTO exposed the US market to a surge of inexpensive manufactured imports. In the decades that followed, prices of goods imported from China remained low even as quality rose. American consumers and downstream businesses benefited, but firms exposed to import competition struggled. Factory closures and job losses, with no clear route for resource relocation, devastated middle-class communities. And the effects of the China shock have now spread beyond the United States.

It is important to note that the China shock is consistent with the principle of comparative advantage: The China shock speaks to the distribution of gains within an importing nation. Comparative advantage describes how trade delivers net aggregate gains to all trading nations but is silent on the distribution of gains and losses within those economies.

This characterization of the China shock, moreover, is agnostic about trade balances. Even regions or countries running a bilateral surplus with China can experience the China shock. What matters is the variation in relative prices brought about by trade, not whether the trade balance is in surplus or deficit. Every change in relative prices as a result of trade harms some production factor somewhere in the importing economy. The resulting economic pain spawns policies that lash out not just against China but the broader international economic system.

Of course, industrial policy is also at play. Other East Asian economies, notably South Korea, Japan, and Singapore, have used industrial policy to avoid being locked into low-quality manufacturing. But China’s practice of state-guided industry reallocation is so large, and has grown so fast, that it contributes to significant global imbalances and fuels concern about anticompetitive behavior.

For a country experiencing it, the China shock is a supply shock. At any given price, imports from China increase in quantity and quality; that is, the supply curve shifts out. Instead of trying to counter the shock with tariffs, import quotas, or geostrategic actions, the importing country would do better to redistribute some of the gains of the sectors that benefit from trade to the workers and communities hurt by it.

### **The US shock**

The US shock, unlike the China shock, is a demand shock. It refers to the raft of tariffs, sanctions, export restrictions, and investment controls directed not at a single adversary but at all other economies. One example is Vietnam, which had been sending a third of its goods exports to the US, and was initially hit with a 46 percent tariff (later changed to a baseline of 20 percent, with 40 percent for some products). Even Singapore and South Korea, which had free trade agreements with the US, suffered tariff actions.

The US shock goes beyond the actions of a single administration. Indeed, most recently, US trade policy has shifted toward fundamental skepticism about trade itself and is no longer using trade restrictions simply as temporary tools to advance wider objectives, such as national development or alliance management.

The US has other grievances. It has accused China of following the letter of WTO rules while violating their spirit. For instance, in 2012–14 China initially justified its rare earth export restrictions on environmental grounds, but it eventually accepted the WTO ruling that the restrictions reserved resources for China's downstream industries, putting foreign competitors at a disadvantage.

The more serious charge is that China has used its status as a developing country to exploit gaps and ambiguities in WTO regulations. Thus, concerns about its export prowess have fueled suspicion that China, instead of viewing the rules-based system as an incentive-compatible mechanism, practices what might be called rules-compatible mercantilism.

### **The multilateralism shock**

The multilateralism shock is a system-wide shock. As the US began to repudiate the multilateral order, other advanced economies saw a playing field that was no longer level and began to wield industrial policies to recover their positions. As a geoeconomic mindset settled into national policymaking, gainful economic interdependence turned into threat-laden strategic leverage, and trade morphed from competition over productivity into disputes over chokepoints and the balance of payments.

Rules-based multilateralism came to be seen by many as a costly global public good whose benefits accrue more to others than to their own countries. The US and other developed economies, which initially benefited disproportionately, began to see the cost-benefit ratio deteriorate (Gaspar, Hagan, and Obstfeld 2018). With costs increasingly outweighing benefits, a significant share of countries began to retreat from full support for the system.

As each country seeks to gain an edge over its rivals, the collective effect is a breakdown of the multilateral order, which hurts everyone. Even though more than 70 percent of cross-border trade still follows WTO rules, disruptions to trade by individual nations have risen more than threefold since 2019, IMF Managing Director Kristalina Georgieva notes in a 2023 [article](#). Thus the

multilateralism shock looks alarmingly like a classic prisoner's dilemma or, as Shiro Armstrong and I call it in a 2026 [paper](#), an “epic fail” outcome.

### **Multilateral enough**

The disruption of rules-based multilateralism poses a profound threat to Southeast Asia's continued development. Research by international relations scholars (for example, Khong and Liow 2025) shows how geopolitical disruption has unsettled trade, diplomatic, and power relations across ASEAN's member states, which prompts the question: How can the core functions of the old order be rebuilt by non-hegemonic, if strongly incentivized, states? The answer lies in what the IMF and others call “flexible multilateralism”: like-minded states forming a coalition to pursue a particular goal, even in the absence of universal consensus.

To succeed, any such coalition must be built around the same three principles we identified earlier as the bedrock of the old system: a level playing field, peaceful dispute resolution, and cooperation in the face of shared challenges. A coalition that meets these conditions is *multilateral enough*; the larger environment can remain loosely organized.

In other words, the collection of all nations is a flexible topology. Groups can come together to seek treaties and explicit agreements, but no one is forced to do so. A coalition of states with aligned incentives, which leads to unintentional cooperation, is better than a coalition holding on in vain to a binding contract. But either pathway works, as long as the coalition that emerges considers itself multilateral enough.

ASEAN is one such coalition. Not a full multilateral system, it is focused on specific challenges of concern to its members. But it has also been open to new members (it recently accepted Timor-Leste as its newest member). Two other multilateral-enough coalitions are the Regional Comprehensive Economic Partnership, which includes ASEAN plus China, Japan, and South Korea, and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, a more eclectic group that recently added the UK.

Flexible, multilateral-enough coalitions can extend beyond a region or a geographic area. An example is the WTO's Multi-Party Interim Appeal Arbitration Agreement. Set up in 2020 to settle trade disputes after the WTO Appellate Body ceased to function, it began with 16 signatories and has grown to nearly four times that number across six continents.

### **Core principles**

These examples illustrate how, even with the loss of global consensus, Southeast Asia can continue to deploy—and apply in new ways—the principles of a multilateral-enough, flexible topology to advance the best of cooperation and multilateralism. International institutions such as the IMF can play a critical, independent role by keeping new flexible topologies open and inclusive. The world need not ossify into competing spheres of influence; it can be flexibly multilateral.

In the past half-century, Southeast Asia has reaped significant gains from the rules-based multilateral world order: faster growth, more jobs, improved well-being. In return, Factory Asia has provided affordable mass-produced electronics and textiles to the rest of the world.

But today, the world order is shifting toward geoeconomics and strategic interdependence. The China, US, and multilateralism shocks are planet-scale trends not likely to be undone by a single

US election or by other personality-based changes in international leadership and policymaking. The core principles of the multilateral system can nevertheless survive in a flexible topology that relies on aligned incentives rather than rigid rules.

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