

Economic Diplomacy for Third Nations: Pathfinder Multilateralism in a G-minus World

by
Danny Quah¹
Feb 2026

With escalating Great Power disruption and rising geopolitical rivalry, **Third Nations**—those states neither frontline in geopolitical conflict nor themselves perturbing the international system—more than ever see need to navigate a new world order, one both unsettled and not of their choosing. Fracture has appeared in the old system of global norms from the past eight decades. The US, the architect of the rules-based order, now seeks to rewrite world order to its own advantage. The result is that the global economy faces a **US Shock** as disruptive as the **China Shock**. As globalization and multilateralism unravel, Third Nations must move beyond behaving like traditional price-takers to instead exercising proactive economic diplomacy.

1 Economic Diplomacy vs. Statecraft

Economic statecraft means deploying economic instruments to advance foreign policy objectives. In the US this is traditionally viewed as a “means of working the US’s geopolitical will in the world”. For smaller nations, however, the goal is more modest, namely to avoid being collateral damage in the conflicts and actions of major powers. **Economic diplomacy** is a better descriptor of what smaller states do. Such nations exercise economic diplomacy through three strategic pathways: Align, Acquiesce, or Mitigate.

1.1 Alignment: The Binary Choice

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?”

More generally, however, if we visualise major powers as two extreme endpoints on the straight line connecting them, then placing the Third Nation at a particular location on that straight line mathematically represents choices of balancing, hedging, and bandwagoning. All such strategies therefore are 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. The setting should also be relatively long-lived. Extreme short-term alignments with constant realignments are meaningless.

¹Li Ka Shing Professor in Economics, Lee Kuan Yew School of Public Policy, NUS.

1.2 Acquiescence: The Psychological Signal

Acquiescence differs from alignment. It can be viewed instead as a specific form of appeasement. Acquiescence surfaces most obviously when a Third Nation 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.

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.

1.3 Mitigation: Stepping Off the Line

Mitigation represents the most novel and proactive approach for Third Nations. If alignment places a state somewhere on the straight line between major powers, mitigation involves stepping off that line altogether, so that the Third Nation seeks to reshape the causes of external shocks, not just passively react to them.

As with climate policy, mitigation comes with the closely-related strategy of **adaptation**. (In the current discussion I subsume that into the category of mitigation generally.) Adaptation minimizes the impact of shocks: Examples include developing a more resilient workforce and building more robust production infrastructure. By contrast mitigation targets the causes of shocks, reshaping the system to prevent disturbances from emerging in the first place: Examples would include forging new multilateral frameworks.

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 willing (literally) where no member of the coalition sees unilateral incentive to deviate from the rules.

2 Pathfinder Multilateralism in a G-Minus World

Two primary examples of mitigation already in operation are ASEAN and CPTPP.

ASEAN—the Association of Southeast Asian Nations—is a coalition of 11 nations that emphasise “ASEAN Centrality”, i.e., that the region itself determines its own outcomes rather than succumbing to external hegemonic power. Since 1967 ASEAN has been a platform for pathfinder groupings that follow and grow rules-based trade.

CPTPP—the Comprehensive and Progressive Agreement for Trans-Pacific Partnership—was reconstructed from the original TPP after US withdrawal in 2017. This group shows

how high-standard trade agreements can exist and grow without US leadership.

ASEAN and CPTPP are each coalitions of the willing that seek to apply to the rules of globalization and multilateralism—a level playing field, commitment to peaceful dispute resolution, a norm of cooperation. They are, at the same time, open to that coalition expanding, with the requirement only that new entrants agree to follow the same rules as already agreed upon in the coalition. ASEAN and CPTPP are, therefore, examples of **pathfinder multilateralism**.

The reality of today's world order—where major powers are no longer constrained by either international law or national sovereignty—points to the emergence of a **G-minus world**, an international system without the participation of a uncooperative major power. While the US remains a significant market for now, the world already trades with itself eight times more than it does with the US. A global economy without the US would be poorer in general. But with incentive-compatible trade and security groupings that are prepared to expand under the rules of pathfinder multilateralism, a G-minus world can continue to grow.

3 Conclusion

Third Nations are no longer restricted to passive roles assigned by traditional theories of Realism, where outside of major powers, nations in the rest of the world “suffer what they must”. Through mitigation—drawing on agile, networked coalitions—nations can build resilient and robust regional or specific interest-focused groupings decoupled from major-power whim. Prioritising incentive-compatibility and decentralized governance over size and power, Third Nations can successfully navigate and proactively reshape a disrupted world order.