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INSTITUTE OF STRATEGIC & INTERNATIONAL STUDIES (ISIS) MALAYSIA



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## Recalibrating Asia's Frontiers

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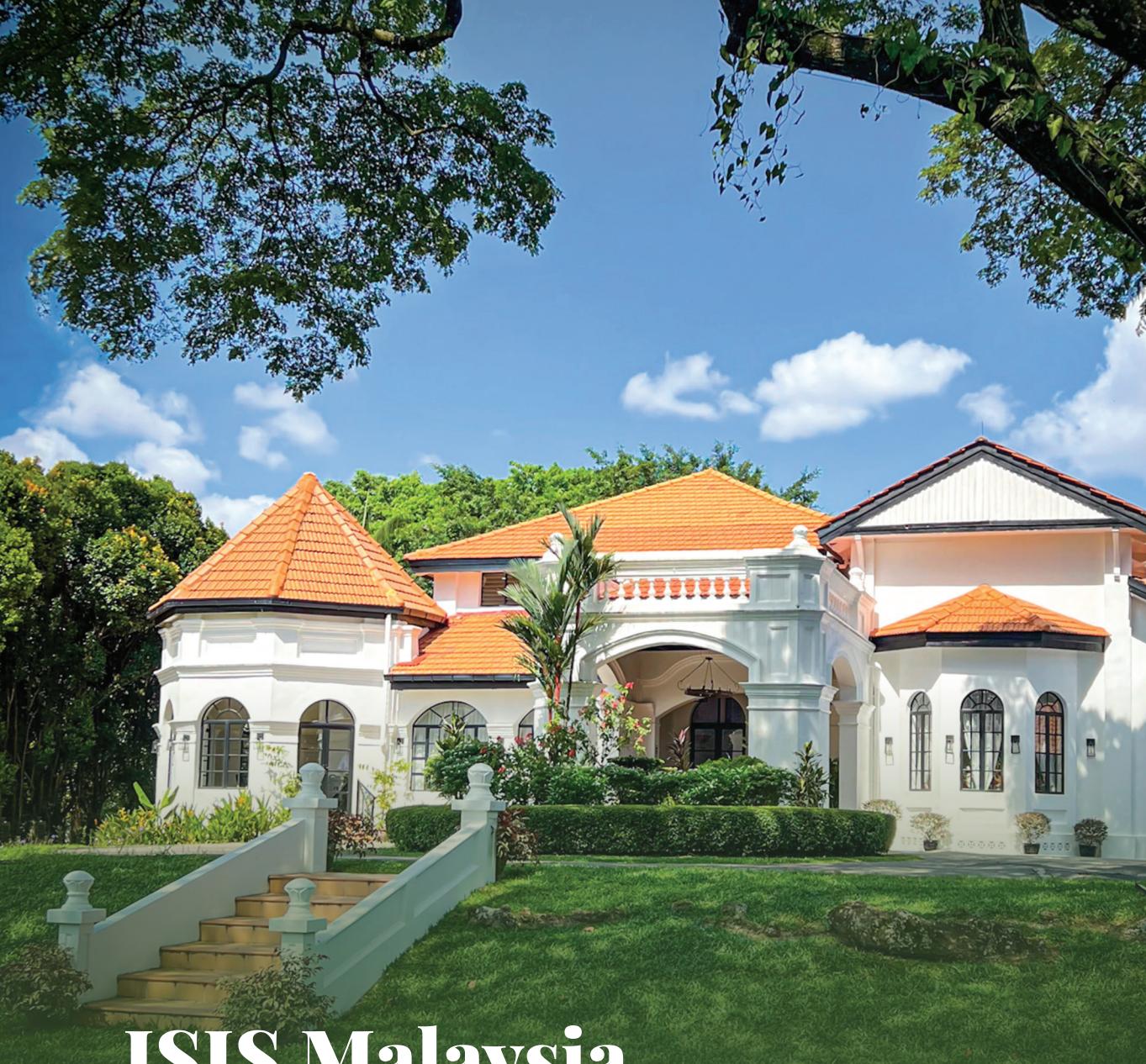
**China Plus One vs  
world minus one**

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**US' shift and  
Asia's response**

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**Good minilateralism,  
bad minilateralism**



# ISIS Malaysia

The Institute of Strategic & International Studies (ISIS) Malaysia was established on 8 April 1983 with a mandate to advance Malaysia's strategic interests. As an autonomous research organisation, we focus on foreign policy and security, economics and trade, social policy and nation-building, technology and cyber, and climate and energy.

For more than four decades, ISIS Malaysia has been at the forefront of evidence-based policymaking, as well as Track 2 diplomacy, promoting the exchange of views and opinions at the national and international levels. We also play a role in fostering closer regional integration and international cooperation through various forums, such as the Asia-Pacific Roundtable, the ASEAN Institutes of Strategic & International Studies network, the Council for Security Cooperation in the Asia-Pacific, the Pacific Economic Cooperation Council, the Network of East Asian Think-Tanks, the Network of ASEAN-China Think-Tanks and the ASEAN-Australia-New Zealand Dialogue.



# China Plus One vs. world minus one

Amid US-China tensions, nations face tough choices in trade and supply chain strategies

Prof Danny Quah

With no sign of retreat in geopolitical tensions between China and the US, other nations – those not immediately frontline in that conflict – are choosing either to align (choose a side) or to adapt (take conflict as the new normal and adjust the best one can, but without picking sides).

A third option, mitigation – limiting the severity of impact by going to the source of disruption and actively changing the terms of engagement – is hardly ever explicitly considered. This is because many of us take as given Thucydides' observation: "The strong do what they will and the weak suffer what they must." We view ourselves as mere price takers and never think to exercise agency to influence the direction of conflict and disruption.

Certainly, it would be foolish to stand across a battlefield from a major power and seek to change its intentions through military force. But the world of trade, production and economics is not a nuclear warzone, where armaments' weight alone determines outcomes. Agility and networking matter importantly: we waste valuable opportunities if we do not recognise and use these.

## Rethinking supply chains: beyond cost to resilience and responsibility

Diversifying supply chains out of China, or the "China Plus One" production and trade strategy, is one such example. Three points are notable.

First, there are good reasons and bad reasons for rewiring supply chains. We should

definitely reconfigure to reduce costs. We should all rewire supply chains to reduce our carbon footprint and help save the planet. We should reconfigure supply chains to diversify risk and increase resilience. Supply chains came into being not randomly but to efficiently solve a production and distribution problem.

However, just as in finance, where risk-adjusted returns and not pure expected returns are what now get optimised, so too it is easy to conceptualise resilience-adjusted efficiency in production and distribution. Rewiring supply chains to optimise resilience-adjusted efficiency is a reasonable thing to do.

But do not chain-wash: do not add in transhipment in a supply chain whose only purpose is to avoid sanctions or evade laws and regulations along the supply chain. These add unnecessary costs and emit unnecessary carbon, and fool exactly no one, much less the US authorities.

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**But the world of trade, production and economics is not a nuclear warzone, where armaments' weight alone determines outcomes.**

Second, interrogate the permanence of the geopolitical disruption that is motivating the supply-chain reconfiguration. For decades, we were warned that China was the revisionist power, seeking to undermine world order and remake the world in its authoritarian image and exercising veto power over other nations' economic, social and political choices. All that time, it was the US that sounded that warning most loudly.

Today, it is the US that is the revisionist nation, disrupting the international economic system and using its size and might to shape other nations' decisions.

But how long and how sustainable are these disruptive considerations? Tariffs are painful, but only as long as you continue to trade with the US. However high a tariff rate, if you do zero trade, you make zero tariff payments. Sure, it is painful not to sell to the US market. But that pain is economically quantifiable, as are tariffs. At some point, the cost-benefit ratio will make the decision compelling to no longer do business with a bully.

This is not to suggest the international economic system will be better without the US in it. Far from it – everyone wants America in the international system. But the world faces a tradeoff, and it cannot force the US to be part of the system if the US does not want to be.

In 2024, the total world GDP was over US\$110t, or three times the total world exports (and imports) at US\$35t. The US, that year, imported over US\$4t and exported a little less. In arithmetic terms, therefore, the US trade was 11% of the total world trade.

### **Imagining a new multilateral world order beyond US dominance**

This means that, outside the US, the world traded eight times more with itself than it did with the US. The loss of the US in the global economy would be extremely painful. But it is not existential. If we need to, we can

imagine an international economic system that is just the old international economic system minus one.

(The obvious thing to say at this point is that this arithmetic does not take into account imports into a nation, from say, China, that have value added in that nation and are then re-exported to the US for final consumption. This, of course, is exactly the global supply chain. However, if we take the US out of the equation, aside from pure trans-shipments, those imports from China are not likely to shrink all the way to zero even if they end up diminished. If it were profitable to build that part of the global supply chain when the US was the final endpoint of consumption, it would still remain profitable to keep that part of the global supply chain running, simply exporting instead to some other part of the world instead of the US for final consumption. In the process, the nation might need to lower prices and face reduced profitability at the margin. Just as in labour-market economics, the lump of labour is a fallacy, and so the lump of trade in international economics should be viewed as a fallacy.)

Third, many economies in the world continue to believe in the effectiveness of open markets and free trade, following the rules of the World Trade Organisation. The question then is, do we choose a world where the US holds us to ransom and we cling to our steadily fracturing global supply chains, putting in “plus one” spaghetti-bowl patchwork every time the US decides to impose a new tariff? And we do so in the hope of getting just some part of the US’ 11% of world trade?

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**Tariffs are painful, but only as long as you continue to trade with the US.**

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Or do we move to a new world order that benefits us all because it is multilateral and rules-based? The US can then choose whether it wants to join us or remain outside, content in an autarky surrounded only by friends and fish. It will be an 11%-pain international economic system. But we will live.



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