

An LKYSPP Economic Diplomacy Initiative

by

Danny Quah

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This writeup describes justification and work program for a potential new economics initiative at the Lee Kuan Yew School of Public Policy, organized around the idea of Economic Diplomacy.

The School of course already has an excellent economics-based research center, the Asia Competitiveness Institute (ACI). The roots for ACI derive originally from Michael Porter's work on competitiveness. ACI has expanded its initial franchise to now also study inflation and prices, labour markets, and a range of other economic dimensions. But competitiveness, like productivity, is about internal, domestic-level development: it is about how by reforming and improving one's internal structures one can do better in the world.

The initiative I describe, in contrast, is founded on the idea that the economic performance of any state, in particular that of a small economy, is intrinsically and irrevocably connected with large-scale international developments. The driving forces are macroeconomic and institutional. For the past 80 years, the international economic system, based on globalization and multilateralism, has allowed all states—large and small, developing and developed—to focus on domestic developments, undertake structural reforms, improve their supply side, all the while assuming in the background globally open markets and rule of international law.

Today those background assumptions no longer apply. Great Powers prioritize short-term narrow, rather than dynamically optimal enlightened, self-interest. They practice economic statecraft—the use of economic tools to advance geopolitical objectives—rather than defend multilateral rules. Previously, in a globalized international economic system that operated according to the principles of multilateralism, nations—both small states and Great Powers—could concentrate on economic efficiency and comparative advantage. This is because it was optimal then to focus on domestic competitiveness and productivity. Today, in contrast, that focus is no longer sufficient. Without elastic global demand, improving one's supply side does not create jobs and wealth; it only raises unemployment. Small states need a new handbook for growth and development, both so that they can navigate a progressively fractured global economy and so that they can help build an international system—even if restricted to plurilateral or regional groupings—that works better for them.

A body of new and innovative economic research, recognising these changes, is emerging in the US and elsewhere, studying how Great Powers can more effectively run economic statecraft. I do not propose building an economics think-

tank at the School simply to do the same and play catch-up. What I describe in this writeup, instead, is an initiative for research and policy engagement on the complementary challenge: How do small states best respond to Great Power economic statecraft? What strategies and economic instruments are feasible beyond the obvious ones available to any price-taker? How much agency and influence can be exercised by small states? What are the politically-acceptable boundaries of small-state economic agency? I suggest the term **economic diplomacy** to describe research and policy engagement on these questions. I believe that the Lee Kuan Yew School of Public Policy can lead in this area, for Singapore and other small states in particular but more generally for all the rest of the world.

1 Background

My workplan aims for the discovery of an economic diplomacy for small states. This workplan comprises scholarly research and policy engagement, and builds on three ideas.

First, the model of international economic relations of the last eight decades no longer functions. That model was founded on the principles of multilateralism and international rule of law, critically allowing small states such as Singapore to thrive. Second, while Great Powers are more and more drawing on economic statecraft—the use of economic and financial instruments to influence other nations and advance one's own geopolitical objectives—small states don't have recourse to the same tools, whether sanctions, weaponized trade, or critical products. What then can small states do? What optimal strategies can small states develop for international economic relations in a world that no longer follows multilateralism? Third, those optimal strategies need to take two broad forms: those that can be implemented even unilaterally, on the one hand, and those that need to agreed upon in smaller groups, regional or otherwise, so long as group members are like-minded. What diplomatic strategies can build those incentive-compatible plurilateral organizations?

International economic policymaking since the end of World War Two has, appropriately, been conducted taking as given the international rules of the game. That understanding was conditioned on rules that included multilateralism—a level playing field, commitment to peaceful dispute resolution, the default modality of collaboration—and on international institutions of global governance that applied those rules. Building on these, national-level economic policymaking could be guided by principles of economic efficiency and comparative advantage.

Therefore, nations focused on building out their supply side. Emerging economies

piled resources into improving their people's health and national transportation and communications infrastructure. These would always be the right things to do—no rich economy has developed without having a healthy productive workforce and robust reliable transportation—but long-run returns to investment were particularly high when the international economic system operated under multilateralism. Political stability and international rule of law provided the kinds of economic environments that made possible long-run growth and development. Globalization meant that for practically every economy international demand was elastic. Thus, previously backwards economies successfully developed and made the world multipolar, in the process inadvertently drawing down the US's unipolar moment (Gaspar, Hagan, and Obstfeld, 2018; Ikenberry, 2005; Quah and Mahbubani, 2016). Small states, although unable to draw on engines of growth in complexity (Hausmann, 2025) or economies of scale (Romer, 1986, 1990) nonetheless became among the world's most successful economies (Quah, 2025a) under the stability and reassurance provided by the international rule of law afforded by multilateralism.

By most accounts, today multilateralism is on the wane and the global economy is fragmenting. While it is important to understand the reasons for this (e.g., Georgieva, 2023; Gopinath, 2024; Quah, 2026) it likely matters more to formulate economic strategies to respond successfully to these changes. Without elastic global demand, continuing to boost the supply side of an economy does not create jobs or wealth; it only raises unemployment. If economic efficiency and comparative advantage no longer serve as guides, what will be the new rule-book for economic growth and development?

Although, in general, the word “statecraft” is used to indicate for all nations the directed management of their state affairs to achieve national objectives, the term “economic statecraft”, on the other hand, is typically understood to mean the actions of Great Powers for their self-gain. Thus, for instance, insightful recent economic work on international economic strategies, (e.g., Clayton, Maggiori, and Schreger, 2025) note that economic statecraft has been too long neglected and look expressly at how Great Powers can better direct their supply of different goods and services to mold the global economy to their benefit. My interest, by contrast, is how small states and others—those who are not Great Powers—can use economic tools to build resilience against such Great Power vicissitudes. My goal is not to help Great Powers to do better; it is to help small states to protect themselves. I will call this **economic diplomacy**—the small-state counterpart to economic statecraft.

To guide the research and subsequent policy engagements, I plan extensive analysis surrounding two large conjectures. First is that small-state economic diplomacy can, in general, take three forms: align, acquiesce and adapt, or mitigate (Quah, 2025c,d,g). Alignment can take different forms. It can be going

along strictly with one Great Power or the other. It can also be about trying to situate oneself somewhere in-between (e.g., Khong and Liow, 2025) This is a time-honored strategy of sheltering beneath the protective umbrella of a Great Power, or of hedging one's bets between Great Power rivals by diversifying risks and demands.

Acquiescence and adaptation are the counterparts, in this context, of price-taker behaviour. Examples of acquiescence include engaging in domestic reforms to raise efficiency when, say, confronted with Great Power tariffs and sanctions. The critical feature here is that the small state gives up on trying to change anything fundamental, but agrees to new or varying rules as set down by the Great Power. The evidence presented in Quah (2025g) on tariff outcomes following the US's Liberation Day announcements suggests sharp limits to what acquiescence can deliver for small states.

Mitigation means exploring what subspace of pro-active strategies might exist that can help relieve the pressures of Great Power economic statecraft. Examples of mitigation can include shifting the nation's production landscape through industrial policy; increasing the resilience of the nation's consumers; re-focusing education from primary through university levels and in continuing education for the workforce; and facilitating training and cross-sector transition of vulnerable workers.

Adaptation and mitigation are, of course, counterparts to strategies of the same names used by policymakers to address the global climate crisis. The strategies of alignment, adaptation, and mitigation can be seen also as counterparts to Singapore's national defense strategy, that has evolved from a "poisonous shrimp" (as articulated originally by Lee Kuan Yew), through the "porcupine" stage (where the projection of the defense mechanisms extend out a further distance than under the poisonous-shrimp strategy), and then the "dolphin" stage, where agility and networking can synergistically raise the effectiveness and agency of small states.

Alignment and acquiescence are unilateral strategies for economic diplomacy. They are available to a nation regardless of what others around them do. Mitigation, on the other hand, can be a unilateral strategy or it can be a multilateral one, i.e., it can be deployed jointly by a group of smaller states, in coordination, and thus be made stronger and more resilient.

An example of a multilateral mitigation strategy is a cross-country supply-chain syndicate that engages in profit-sharing, to mitigate the effects of creative destruction specific to individual nations. Consider the China Shock, the hypothesis that China's export prowess leads to permanent job losses and industrial decline in those nations that import from China. Previously this featured primarily in US political narrative (Autor, Dorn, and Hanson, 2016; Kennedy and Mazzocco, 2022) but more and more such ideas appear in economic policymaking discus-

sions in ASEAN and elsewhere as well. Even when the theory of comparative advantage applies, so that importing nations benefit on net—because their consumers now have access to high-quality goods at lower prices—re-distribution of the total gain never takes place. The job destruction that occurs impacts economically vulnerable but politically pivotal workers, worsening inequality. One possible way forwards is to move production from today’s global supply chains to cross-country supply-chain syndicates that can leverage production complementaries: At the same time, doing so ameliorates the inequality and job displacements along the value chain. To do that successfully, however, requires both coordinated structural reforms that are directed to build international linkages—not just relentlessly raise one’s own productivity—and a stronger form of multilateral agreement than is currently available. This last would draw on the same reasoning used in climate crisis discussions of “just transition” (Saran and Quah, 2024). Economic diplomacy can help.

Large states can potentially carry out all the actions I have just described available to a cross-country supply-chain production syndicate. However, in reality, many large states have not taken on such redistribution. The US, throughout the period of hyperglobalization, could have reduced the negative effects of the China Shock, while continuing to reap the benefits of win-win comparative advantage. Through minimal tax-transfer schemes, US policymakers could have helped many of that nation’s dislocated workers transition into new industries. But, because they failed to do so, the reallocation costs of the process of creative destruction fell disproportionately on America’s working class, and arguably fuelled the rise of MAGA populism.

The second large conjecture follows from my suggestion of a cross-country supply-chain production syndicate. When mitigation as economic diplomacy is deployed jointly in a group, a natural outcome is the formation of a plurilateral coalition. These become incentive-compatible groupings of like-minded nations and are potentially more robust than groupings led by Middle Powers. This is because Middle Powers are, in effect, only Great Powers in-waiting, and the same cost-benefit calculations that make Great Powers circumspect of multilateralism will, eventually, apply to Middle Powers as well. The emergence of incentive-compatible multilateralism will not be automatic. The research ideas I have described will need to be disseminated and communicated to academic counterparts and policymakers in other nations who collectively see benefit to a new economic diplomacy for a global economy that continues to become ever more fragmented.

2 An LKYSPP Economic Diplomacy Initiative

What I have described in the previous section might be viewed as just an ambitious workplan for an individual researcher. But the volume of research and its attendant policy implications can see an impact multiplier if what I have just described becomes the core of a new thinktank or research center.

1. The causes for the breakdown of globalization and multilateralism can be explored in greater detail, by multiple researchers. This would allow either strengthening or rejection of hypotheses such as developed in Quah (2026), where geopolitical and global economic forces are described to align, both as the rules-based multilateral order was being built and when it was fragmenting. Research by econometricians, historians, and international relations scholars would help firm up our understanding of the 20th-century rise and fall of multilateralism.
2. How does the China Shock allocate gains and losses across consumers and producers? Almost all the policy focus has been on job destruction and local industry competition. This is right as those have been both economically vulnerable but politically pivotal. But a fuller picture is needed for more coherent policymaking. Can ASEAN nations and other small states evade the political quandry in which the US finds itself, where the MAGA movement obviously draws fuel not only from the China Shock itself but from extending the logic to all trade generally? Those who believe still in free and fair trade according to WTO rules do not, at this point, have as ready access to a full picture of the gains and losses from trade. A think-tank in ASEAN where rigorous analysis comparable to that in Autor, Dorn, and Hanson (2016); Kennedy and Mazzocco (2022) would help economic diplomacy in this part of the world.
3. The work on helping better understand the distributional challenges and opportunities to trade or to cross-nation supply-chain syndicate production has important consequences for policy on social mobility and income inequality (following, e.g. the hypotheses developed in Quah (2025b)). Thus the work on economic diplomacy in such a thinktank should also cover the connections to social mobility within societies.
4. Understanding the causes behind the rise and fall of the multilateral international economic system will also help build new multilateralisms. These last might take the form of plurilateral groupings, regional organizations (Herz and Ho, 2026), or yet other incentive-compatible coalitions (Quah, 2025e,f). These can then lead to practical economic diplomacy helping

build regional or plurilateral groupings that mitigate the destructive impacts of global economic fragmentation. The work should also critically evaluate the natural tendency to view middle powers to provide leadership in a new world order (Russell, 2025). My working conjecture is that leadership in new multilateralisms will need to escape the hierarchy of power but draw instead on states' intelligence, networking, and agility—and thus as much the domain of small states as they are of larger ones (Quah, 2025g).

5. Economic development has in research and policy most recently focused on capacity-building. Intervention programs to improve health, basic skills, and participation have been a central focus, both for evaluation and in implementation. The implicit assumption is that demand is always ready to pick up whatever additional output is generated by improvement on an economy's supply side. In the traditional thinking, the further implicit assumption is that if domestic demand is not forthcoming, external global demand is elastic. This indeed was the development model practiced in China, Singapore, and elsewhere—and significantly in economies both large and small in population. However, today, the international economic system no longer follows the principles of globalization and multilateralism, but instead comprises nations that are narrowly self-seeking and protectionist. This breaks the development model's implicit assumptions: boosting the supply side then no longer creates jobs and adds value. It only increases unemployment. What new rulebook do development practitioners need when it is economic diplomacy that matters critically?
6. A just transition for mitigating the global climate crisis was always going to be challenging, even in a world where nations followed enlightened self-interest (Saran and Quah, 2024). This is because such a crisis satisfies the conditions of the so-called tragedy of the commons. With the fraying of multilateralism, the challenge becomes orders of magnitude more daunting. Humanity will be unwilling to lower its standard of living, especially those who are already suffering from under-development. The Global South might have seen a way to be green but also continue to rise if clean energy sources were more widely available. Electric vehicles, solar panels, wind turbines, and batteries might have offered some respite but, because of the dual-use nature of these technologies, these also happen to be a focus of geopolitical rivalry in the form of techno-nationalism. Without under-estimating the engineering challenge of making available affordable green energy, economic diplomacy will matter importantly for enabling a just transition in the global climate crisis.

7. Engagement with agencies and ministries, in Singapore and internationally.
 - (a) I have worked and consulted with groups in the World Bank, IMF, UNCTAD, RCEP, the ASEAN Economy Ministers Geoconomics Task Force, PIIE, and a wide range of thinktanks, agencies, and Ministries in Singapore, including MTI, MOM, MSF, MOF, MAS, RSIS, SIIA, and others, on a range of these economic diplomacy questions. A strong initiative at LKYSPP will naturally draw also on, not just the Economics but also the International Relations scholarship in the School's faculty generally and the Centre for Asia and Globalisation in particular. All these work on the general questions articulated above but none yet do so under an organising structure of economic diplomacy as I have described. Taken all together, a strong Singapore-centered research and policy group can be built at LKYSPP around the challenge of economic diplomacy.
 - (b) Other institutions and initiatives around the world have focused primarily on economic statecraft, not as much on economic diplomacy. These include the Peterson Institute of International Economics, the Belfer Center at Harvard Kennedy School (Economic Statecraft Initiative), Princeton University School of Public and International Affairs, Columbia University SIPA, Oxford University (Blavatnik School, China Centre) Yale University's Jackson School of Global Affairs, the Fletcher School at Tufts University (the Hitachi Center), the Council on Foreign Relations, the Brookings Institution, the Center for a New American Security, the Atlantic Council, Chatham House (London), the Asia Global Institute (Hong Kong China), Renmin University School of Global and Area Studies, China Academy of Social Sciences Institute of World Economics and Politics (Beijing), the Institute for Geoeconomics (Tokyo), and Lowy Institute. Institutions undertaking work that is closest to the economic diplomacy narrative in this proposal include those in Switzerland (the University of St. Gallen, Global Trade Alerts), Indonesia (CSIS, PAFTAD), and Australia (ANU, again Lowy Institute). I already know well many of the principals at these institutions and plan to engage them in the ongoing workplans of this economic diplomacy initiative.

The way I see the work unfolding includes the following:

1. A core group of academics and researchers, working on blue-sky, innovative ideas on economic diplomacy. The output will be working papers and

technical reports in the first instance, but all targeted for publication in top journals and as books in leading university presses.

2. Regular engagement with practitioners—Ministries, agencies, other thinktanks—and public dissemination of findings. The initiative will need to have strong communicators who can speak in public and provide commentaries and op-eds on the ideas of economic diplomacy.
3. Short-term visiting fellowships for scholars and practitioners interested in economic diplomacy.
4. Specialized two-week training workshops for PhD and postgraduate students, providing both certification and tools for writing research papers on economic diplomacy.
5. Leadership workshops that provide economic diplomacy training to public officials.

Output will emerge on the first three of these items within 6–12 months. Training and leadership workshops should take place by within the first two years of operation.

I don't have a strong view on how this economic diplomacy initiative sits relative to ACI. It can be a second major part of what ACI already does, using the idea that there is just one point of contact for institutionalized economics research at the School. Although I have only mentioned the School's Centre for Asia and Globalization (CAG) in passing, given the cross-over ideas in international economics and international relations drawn on in my conceptualization of economic diplomacy, this initiative could also become part of CAG, again keeping one point of contact for institutionalized research on international affairs generally at the School. Alternatively, it could become a separate new think-tank at the School, but I think that a remote possibility only, not least for how it would take considerable start-up cost. The advantage to this, however, is that ACI and CAG could continue to preserve a clean identity in their traditional arcs of research and engagement.

3 Conclusion

This writeup has considered a potential new economics initiative at the Lee Kuan Yew School of Public Policy on Economic Diplomacy.

It has described justification and work program, using as a guide my own research and policy-engagement instincts and interests, but also pointing the

way to a broader program of work for many more at the School. Such an initiative would bring together our School's academics in Economics, International Relations, and Public Policy, as well as the broader community in Singapore of researchers and practitioners.

External circumstances in the world make compelling such an initiative at this time. An economic diplomacy thinktank or a research center at our School would fill a gap both in organizing and synergizing the current work at LKYSPP, but also provide value in the wider world of research scholarship and of research-driven policy engagement.

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