

## An LKYSPP Economic Diplomacy Initiative

by

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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 origins of ACI drew from Michael Porter's work on competitiveness, with then MTI support primarily because that work promised a meso-level analysis, beyond just micro- and macro-economics. 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, draws 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, founded 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, and thereby successfully develop, assuming in the background global 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 the rules of multilateralism. 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 that focus is no longer sufficient. Without elastic global demand, improving one's supply side no longer creates jobs and wealth; it 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 that works better for them—even if that new system is not fully international but restricted to plurilateral or regional groupings.

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 nation? 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 monopoly control of 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 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. The work here needs to keep in mind both classes of strategies. Reform to make one's economy perform better but also constantly ask, what strategies for economic diplomacy can build 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 their supply side. Emerging economies piled resources into improving their people's health and national transportation and communications infrastructure. These are always the right things to do—no rich economy has developed without having a healthy productive workforce and robust reliable transportation. But returns to such investments were particularly high when the international economic system operated under multilateralism. Political stability and international rule of law provided economic environments that made possible long-run growth and development. Globalization meant that for practically everything that every economy produced 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 multilateralism and international rule of law.

By most accounts, however, today multilateralism is on the wane and the global economy is fragmenting (e.g., Georgieva, 2023; Gopinath, 2024). The Great Powers that originally architected the multilateral system found cost-benefit calculations turning against their continued support of that system. When the Soviet Union was America's ideological adversary in the Cold War, the US found it advantageous to argue for the economic success afforded by open markets and free trade, given that their opponent was so averse to these economic structures. As John F. Kennedy put it, "A vital expanding economy in the free world is a strong counter to the threat of the world Communist movement." But today America's adversary is China who, instead, ruthlessly and successfully leverages open markets and free trade. Moreover, as economic success spread around the world, US unipolarity diminished in various dimensions, and ongoing gains in global growth became more widely dispersed than before, not just in the majority share of the leading power (Quah, 2025e,f, 2026).

But while it is important to understand the reasons for the decline of multilateralism and globalisation, it matters at least as much that research look to formulate economic strategies to respond to these changes. With a fragmented world economy, global demand becomes inelastic. Policymaking then that boosts the economy's supply side does not create jobs or wealth; it only raises unemployment. If economic efficiency and comparative advantage no longer serve as

guides, what should be the new rulebook for economic growth and development?

In general, the word *statecraft* is used to denote for all nations the directed management of state affairs to achieve national objectives. Thus, both small states and Great Powers openly say they practice statecraft. ‘*Economic statecraft*, in contrast, is typically understood to mean the actions of Great Powers for self-gain. Thus, insightful recent research on international economic strategies, (e.g., Clayton, Maggiori, and Schreger, 2025) note how economic statecraft has been too long neglected but look primarily at how Great Powers can undertake actions (in their case, direct supply of different goods and services) in order to mold the global economy to their benefit. My interest, by contrast, is how small states and all others 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 do better; it is to help small states 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. The first conjecture is that small-state economic diplomacy can only take one or a mix of three possible forms: align, acquiesce and adapt, or mitigate (Quah, 2025c,d,g). Alignment, as a strategy, is not just purely binary. Yes, alignment might mean going along strictly with only one Great Power or the other. But an alignment mindset can also imply trying to situate oneself linearly somewhere in-between competing Great Powers (e.g., Khong and Liow, 2025). This is a time-honored strategy of sheltering under the protective umbrella of a Great Power, or of hedging one’s bets rivals by diversifying risks and demands, as a convex combination of Great Power competitors.

Acquiescence and adaptation are instances, in this context, of price-taker behaviour. Examples of acquiescence include engaging in domestic reforms to raise efficiency when confronted with, say, Great Power tariffs and sanctions. The nation takes those Great Power actions as exogenously given, and tries its best to re-calibrate what levers it can control. The critical feature here is that the small state gives up on trying to change anything fundamental, but agrees to follow new or varying rules as set down by the Great Power. 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.

The third form, 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 bringing to the attention of the Great Power some critical resource or expertise only that small state controls; shifting the nation’s production landscape through industrial policy to have a more advantageous bargaining position relative to the Great Power; increasing the resilience of the nation’s consumers; re-focusing education from primary

through university levels and continuing education for the workforce; and facilitating training and cross-sector transition of vulnerable workers, all to raise the essentiality of the small state in the eyes of the Great Power.

The second and third forms, adaptation and mitigation, are counterparts to strategies of the same names used by policymakers to address the global climate crisis. More generally, all three strategies of alignment, adaptation, and mitigation can be seen also as analogues of Singapore's national defense strategy over time. That is a 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. In its multilateral version mitigation can be deployed jointly by a group of smaller states, in coordination, and thus 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 these ideas now appear in economic policymaking discussions 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. Under China Shock conditions, 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 leverage production complementaries and profit-share appropriately: Doing so ameliorates inequality and job displacements along the value chain. But for this to succeed requires coordinated structural reforms that are directed to build international linkages—not just relentlessly raise one's own productivity. Thus, the international system needs a stronger form of multilateral agreement than currently available. Such a multilateral understanding would draw on the same forces that appear in climate crisis discussions of "just transition" (Saran and Quah, 2024). Economic diplomacy can help.

Large states can, on their own, potentially carry out all the actions I have

just described for a cross-country supply-chain profit-sharing 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 re-allocation costs of the process of creative destruction fell disproportionately on America's working class, fuelling the rise of MAGA populism.

The second large conjecture follows from my suggestion of a cross-country supply-chain profit-sharing production syndicate. When mitigation occurs in a group as economic diplomacy, a natural outcome is the formation of a plurilateral coalition. These coalitions become incentive-compatible groupings of like-minded nations, in theory 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 have made Great Powers suspicious of multilateralism will, eventually, apply to Middle Powers as well.

However, 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 Section 1 could 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 described becomes the core of a new thinktank or research center. This last possibility is what I now turn to in this Section.

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 (2025e, 2026), where geopolitical and global economic forces are described to align, both when 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 thinktank in ASEAN where rigorous analysis comparable to that in Autor, Dorn, and Hanson (2016) and 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 connect to social mobility within societies.
4. Understanding the causes behind the rise and fall of the multilateral international economic system is of not only scholarly interest. That understanding will 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. These are as much the domain of small states as they are of large 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. Such a change in the international environment has consequences on financial markets. Developing country debt undertaken when the international environment made profitable investments in capacity-building will decline sharply in value when global demand becomes inelastic. Developing nations will then find more difficult debt servicing and repayment, thus worsening the problem of international indebtedness.
7. 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 less willing to bear the cost of mitigating the climate crisis if it means immediately lowering 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 critically for enabling a just transition in the global climate crisis.
8. 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. ACI's work with MTI has historically featured more the "I" or industry part of the Ministry. What I propose in economic diplomacy turns to the Ministry's "T" or trade part. 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, think-tanks—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 a single 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 the single point of contact for institutionalized research on international affairs generally at the School. Alternatively, this economic diplomacy initiative could become a separate new thinktank at the School. But I think this only a remote possibility, not least for how considerable start-up cost would be needed. The advantage to this third strategy, however, is that ACI and CAG could continue to preserve a clean identity in their traditional arcs of research and engagement, while this initiative carries forwards the ideas of economic diplomacy.

### 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 of the School's academics and practitioners. Such an initiative would bring together our School's faculty 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.

Just as importantly, it would also add considerable value in the wider world of research scholarship and of research-driven policy engagement.

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