

The US withdrawing from the multilateral trading system is not an existential crisis, says the writer. Today, the world outside the US trades among itself eight times more than with the US, and the US imports only 15 per cent of China's total exports.

PHOTO: REUTERS



Concede or resist? Neither, as the world moves on from Trump's tariff tantrum

Rather than adapt or align, countries are attempting to mitigate the full effects of the US shock.

Danny Quah

US President Donald Trump's historic tariffs have come into force over the past month, forcing countries to consider their strategic options.

For all the talk of dealing with a second China shock, countries have to face yet another challenge – that of the US shock.

Small states around the world are responding by drawing on three broad strategies: alignment, adaptation and mitigation. Many are now beginning to choose the last.

ALIGNMENT AND ADAPTATION ARE POOR STRATEGIES

Alignment has historically been the go-to strategy, right from early days when Singapore and much of the rest of South-east Asia were drawn into the Cold War and segueing from that into the Vietnam conflict.

The US was always on one end, with the opposing side a rotating set of other nations. Today, US-China rivalry has alignment bundling together trade, technology and security benefits. Now, as before, alignment can end up leaving us little room for independent decision-making.

Adaptation is a second reactive option: taking as given the behaviour of great powers, meekly giving in and adjusting as allowed. Under the second Trump administration, nations wanting continued access to the US market conceded to tariffs and other trade conditions.

Vietnam negotiated its 46 per cent tariffs down to 20 per cent, but at the cost of new avenues of trade and investment for the US. After negotiation, US tariff rates on Indonesia came down too but that required committing to significant purchases of US energy and aircraft.

Adaptation carries serious risks. Outcomes are unpredictable: tariff reductions often come with hidden costs, and there are few discernible patterns in US negotiation behaviour. The process potentially reveals sensitive information about countries' pressure points to external powers, exposing vulnerabilities. Adaptation signals buckling under pressure, encouraging bullying from other major powers, including China. Even loophole-exploiting tactics to avoid US trade restrictions, such as a "China Plus One" strategy, where supply chains are redirected, can fail:

By proactively strengthening rules-based trade and cultivating alliances, small states can help shape the new international economic order – rather than simply reacting to shocks, hopping from one foot to the next in endless rounds of constant accommodation.

This is especially so if motivated purely for the purpose of evasion – what we might call "chain-washing". Vietnam's new 40 per cent tariffs on transshipped goods show the limits of such manoeuvres. At best, adaptation is a costly cat-and-mouse game;

at worst, it erodes sovereignty and diverts attention from the need for long-term investment and efforts to shore up resilience.

THE GROWING MOVEMENT TOWARDS MITIGATION

A third strategy, mitigation, by contrast, is proactive. It is the exercise of economic statecraft: reshaping external forces to safeguard national interests, rather than simply reacting to those forces.

An analogy with Singapore's military strategy is instructive. After independence, the country relied on the "poisonous shrimp" approach – deterring harm by making attacks costly in a world where it is assumed "big fish will eat small fish and small fish will eat shrimp". Over time, this evolved into the "dolphin" strategy, with a next-gen SAF vision of a networked armed force capable of projecting influence

with speed and agility. These ideas carry over from military to economic statecraft: Small states can move from passive adaptation to active mitigation on trade, just as Singapore did on security.

Mitigation is feasible even for small states through pathfinder multilateralism. This involves rebuilding and reinforcing a rules-based international trading system among like-minded nations, while remaining open to new participants who commit to the system's principles. This approach preserves sovereignty, creates agency, and strengthens long-term resilience.

There is growing evidence of a consensus around such an approach. When the World Trade Organisation's Appellate Body could no longer function due to US opposition, 16 members created the Multi-Party Interim Appeal Arbitration Arrangement in 2020; membership has since grown to 53. After Mr Trump withdrew from the Trans-Pacific Partnership, Japan and other partners established the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, maintaining rules-based trade without the US. Most recently, a growing list of WTO members including Singapore, New Zealand and the UAE are forming a new grouping – the Future of Investment and Trade Partnership – to boost rules-based international trade.

These initiatives demonstrate that trade can thrive even when a major power steps aside. Call this multilateralism in the international system a "minus one" model.

Critically, mitigation requires realistic assessment of costs. The US withdrawing from the multilateral trading system is not an existential crisis. Today, the world outside the US trades among itself eight times more than with the US, and the US imports only 15 per cent of China's total exports. While painful, tariffs are, after all, only finite. No matter how high the tariff rate, a nation that exports less and less to the US will see tariff payments also growing smaller and smaller.

In a world of unpredictable great powers, adaptation leaves small states exposed. Mitigation, through proactive economic statecraft and pathfinder multilateralism, offers an attractive alternative.

By proactively strengthening rules-based trade and cultivating alliances, small states can help shape the new international economic order – rather than simply reacting to shocks, hopping from one foot to the next in endless rounds of constant accommodation.

Will the US notice and do something? It can't stop countries from deepening trade with each other. And if it responds by seeking entry, returning to the system's rules, the international system will be restored. But if not, the "minus one" world order will be the default order that works for the rest of us.

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