# Economic Power Through the Investor's Rutter

## *What Krugman's Economic Size and Economic Power Tells the Investor*

*Richard Marney and Philipp Waeber – September 2026*

Introduction: from economic size to economic power

Paul Krugman's *Economic Size and Economic Power* starts with a question that has become increasingly important in a more fragmented global economy: what actually gives a country economic power? His answer is more subtle than simply economic size. GDP matters, but power ultimately depends upon relationships of dependence—who needs whom, for what, how easily alternatives can be found, and how long adjustment takes.

The starting point is weaponised interdependence. Trade creates benefits for both parties, but those benefits can also create vulnerability. If one country supplies something the other cannot readily replace, the threat to withdraw access can become an instrument of economic power. The important qualification is that the outcome depends on elasticities, the ability of exporters to redirect supply, the availability of alternative producers or routes, and the time required for adjustment.

This makes economic power a potentially "wasting asset". Dependence encourages adaptation: alternative suppliers emerge, infrastructure is built, inventories increase and technologies change. Exercising leverage may therefore accelerate the process that erodes it. The key issue is not simply the existence of dependency, but its durability.

Krugman also shows why economic size and economic power are related but not identical. PPP GDP, market-exchange-rate GDP, manufacturing output and trade shares answer different questions. The investor lesson is straightforward: do not begin with a preferred headline indicator. Begin with the dependency being examined and use the measure that best illuminates the mechanism.

Krugman is concerned principally with economic power between states. The Investor's Rutter – a framework for investment judgement introduced by Marney & Waeber (2026) - provides a different lens: what happens when we take these mechanisms of dependency, substitutability and adjustment and ask what they mean for an investor? The Rutter does not follow mechanically from Krugman; it extends the analysis from state power to investment judgement.

1. Endowments: look beyond economic size

The Rutter begins with what a country has. Krugman suggests that aggregate GDP is only the starting point. Economic power may derive from a particular resource, technology, industrial capability or geographical position. Taiwan's role in advanced semiconductors and Iran's relationship to the Strait of Hormuz illustrate the point. For the investor, the question becomes: what does the country possess or control that others cannot readily replace—and on what external resources, technologies, markets or routes is it itself unusually dependent?

2. Enablers: endowment is not leverage

Possessing a strategic asset is not the same as being able to exploit it. Institutions, infrastructure, processing capacity, technology, access to capital and political cohesion determine whether an endowment becomes effective economic capability. Krugman's comparison of Europe with the United States is useful precisely because it separates aggregate economic weight from the capacity to act collectively. In Rutter terms, Endowments establish potential; Enablers determine how much of that potential can be converted into durable advantage.

3. Context and trajectory: how quickly does leverage decay?

Geopolitical and geo-economic change can turn trade routes, technology, energy, critical minerals and supply chains into instruments of pressure. But a static picture is inadequate. Krugman's "wasting asset" argument makes trajectory central. The investor should therefore ask: How many alternative suppliers or markets exist? How quickly can they be accessed? What infrastructure or qualification constraints delay substitution? Are inventories, contracts or financial buffers sufficient to absorb a near-term shock? Is substitution economically feasible? And is investment already under way that will reduce the dependency? The answers help distinguish a temporary bottleneck from a durable source of economic power.

4. EMDEs: strategic importance can exceed economic size

This perspective is particularly relevant to EMDEs. Chilean copper, Congolese cobalt or Indonesian nickel may appear strategically important, but the resource alone does not create Krugman-style leverage. The investor must ask about concentration, processing and refining, alternative sources, transport infrastructure, substitution and the time required to develop new supply. A strategic endowment becomes strategic advantage only when scarcity, concentration, limited substitutability and the country's Enablers allow it to create durable leverage. Otherwise, the same endowment may create dependency and vulnerability.

For the EMDE investor, the opportunity may therefore lie not simply in economic size, but in countries whose strategic importance is increasing faster than their economic weight. The Rutter adds a second question: is that strategic importance becoming more durable, or are technology, substitution and new investment already beginning to erode it?

5. Relevance for investors: trace the transmission mechanism

Economic power is not the same as investment risk. The investor must establish whether, when and through what channel the dependency reaches the asset. A useful sequence is: Country position → dependency → geopolitical or policy response → investment exposure → financial outcome.

For a miner, strategic scarcity may initially support prices and bargaining power, but over time encourage new supply, substitution or recycling; the investment consequences may include higher revenues alongside greater taxation, export-control or intervention risk. For a manufacturer, the immediate issue may be interruption of critical inputs, followed by the cost and delay of qualifying alternative suppliers. For infrastructure, changing trade routes may initially reduce volumes and later require new capex or create stranded-asset risk—or generate new demand elsewhere. For a bank, transmission is more indirect: the near-term shock reaches borrowers, trade finance and foreign-exchange liquidity, while longer-term adjustment appears through asset quality, funding conditions and changes in the structure of the domestic economy.

6. Conclusion: from size to position—and position to trajectory

Krugman tells us where economic power may lie. The Investor's Rutter asks whether that power is durable, in which direction it is moving, and how—if at all—it reaches the investment. This shifts attention from headline economic size to the structure of dependency, from today's bottleneck to tomorrow's alternatives, and from country-level leverage to investment-level transmission.

For the investor, the question is therefore not simply who has economic power today. It is where that power comes from, how quickly it can be eroded, and whether its exercise ultimately changes the risks, returns or viability of the investment.

References

Krugman, P. (2026) 'Economic Size and Economic Power', address to the ECB Annual Research Conference 2026, European Central Bank.

Marney, R. and Waeber, P. (2026) The Emerging Markets Investor's Guide to Country Risk: Systematic Risks and the Threats to Investment Performance. Cham: Palgrave Macmillan.