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Can Small States and Middle Powers Shape the Indo-Pacific?

By Denis Hew

Navigating intensifying geopolitical and geoeconomic tensions, the Indo-Pacific region stands at an inflection point in a rapidly changing global order. The region, long defined by dynamism and promise, now faces compounding uncertainties. Intensifying US-China rivalry, economic fragmentation, technological competition, rising trade protectionism, and contested maritime boundaries are driving regional volatility. Against this backdrop, a critical strategic question emerges: Can small states and middle powers shape the Indo-Pacific's future? Do they have the agency to address these emerging challenges and navigate an increasingly hostile global landscape?

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Counterpoint Indo-Pacific is published regularly by the Centre on Asia and Globalisation at the National University of Singapore's Lee Kuan Yew School of Public Policy. It seeks to answer major questions of strategic significance for Indo-Pacific by bringing in diverse voices from around the region. Each issue will tackle one question from different perspectives.

Centre on Asia and Globalisation

+65 6516 7113

cag@nus.edu.sg

469A Bukit Timah Road,

Tower Block Level 10,

Singapore 259770

https://lkyspp.nus.edu.sg/cag

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The inaugural issue of *Counterpoint Indo-Pacific* examines this question across the essays that follow.

Small states, generally defined by limited resources, military capability and economic weight, face inherent constraints. While Middle powers typically command greater capabilities and influence than small states, they lack the ability to decisively shape global strategic outcomes.

Despite these limitations, small states and middle powers share common characteristics that may prove consequential in shaping the regional order. They "punch above their weight" by leveraging multilateral institutions and coalition-building to assert their influence in addressing global issues and emerging challenges.

Consider the important role of small states and middle powers in establishing multilateral institutions. The region's institutional architecture owes much to their efforts. The Association of Southeast Asian Nations (ASEAN) is a compelling example—built and sustained by smaller states that have been instrumental in agenda-setting and fostering dialogue across a highly diverse and otherwise fractious region. Similarly, the Asia-Pacific Economic Cooperation (APEC) has championed open regionalism, business facilitation and promoted multilateral engagement even as major powers leaned towards bilateralism and coercion.

Regional processes and mechanisms that facilitate summits, ministerial and senior official meetings, as well as engagement with international financial institutions and aid agencies. These arrangements illustrate the convening power of small states and middle powers. They bring together key actors to advance regional cooperation, economic security, technical assistance and capacity building, especially for developing member states. Norm-setting offers another avenue for influence: small states and middle powers frequently champion principles of sovereignty, non-use of force, respect of international laws (such as freedom of navigation) and open regionalism. They also provide an indispensable platform for dialogue, de-escalation of tensions and the peaceful resolution of disputes.

Coalition-building is another arena where small and middle powers have demonstrated outsized influence, particularly in trade liberalisation and economic reform. Individually, they may command limited bargaining power, but collectively they can significantly shape standards, regulatory frameworks, and drive trade integration. Two of the world's largest free trade agreements—the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) and the Regional and Comprehensive Economic Partnership (RCEP) agreements were driven by middle powers (Japan and Australia) and ASEAN (a grouping of mostly small to mid-sized Southeast Asian economies), respectively. These agreements do not exclude great powers. Rather, they create normative and

economic incentives that draw great powers toward regional rules and institutions. The pull is greatest when either power seeks closer engagement.

In the geoeconomics sphere, small states and middle powers wield influence that belies their size when they occupy critical nodes in global value chains or serve as regional hubs in strategic sectors such as logistics, manufacturing, technology, and finance. A country hosting leading-edge semiconductor fabrication or anchoring international financial flows confers genuine strategic leverage, enabling smaller states to shape economic engagement and carve out greater foreign policy autonomy. Strategic hedging—maintaining security cooperation with one partner while deepening industrial linkages with another—offers a further avenue for agency. This has long been ASEAN's approach, though sustaining it is becoming increasingly difficult amid intensifying US-China rivalry. Nonetheless, **survey findings from the ISEAS–Yusof Ishak Institute** suggest that strategic space remains. When asked which "third parties" ASEAN should turn to in order to hedge against US–China rivalry, respondents identified the European Union and Japan as the region's most preferred partners.

The Centre on Asia and Globalisation (CAG) invited three experts to discuss the important question of whether small states and middle powers can shape the Indo-Pacific. They presented their views in the **1st Counterpoint Indo-Pacific (CIP) webinar** on April 14, 2026.

Sarah Teo argues that Indo-Pacific middle powers retain meaningful agency through two reinforcing strategies: diversifying official bilateral relationships beyond the US-centred hub-and-spoke framework—as illustrated by the Australia-Indonesia Treaty on Common Security signed in February 2026—and engaging in minilateralism through small-group coalitions on issues such as critical minerals and maritime security. She cautions that overly strategic minilateral groupings risk deepening regional polarisation, and emphasises the importance of keeping such initiatives issue-based and nested within broader multilateral frameworks.

Kanti Bajpai offers a more sobering assessment. He acknowledges the conventional view of middle powers as skilled institution-builders capable of moderating great power behaviour, but identifies two significant constraints: the internal heterogeneity of the grouping, with some states closely aligned with the US and others adopting a more neutralist posture and bilateral tensions over historical grievances and territorial disputes that impair cohesion. These tensions, rooted in each country's distinct history and political economy, will continue to limit middle powers' ability to act as a coherent force.

Tomoo Kikuchi examines Japan's evolving role through the lens of what he terms dual "great power shocks": the US shock of trade protectionism and multilateral withdrawal, and the China shock of assertive industrial policy and territorial behaviour in the South and East China Seas. Both shocks are eroding

the liberal economic order from which smaller states have benefited, yet middle powers are not merely passive victims; their responses also shape great-power behaviour. For Japan, the loosening of US security guarantees has opened space for once-taboo debates over constitutional revision, expanded defence spending, and broader security partnerships under the Takaichi Administration. Economically, Japan is pursuing proactive industrial policy and supply-chain diversification, exemplifying how middle powers can leverage structural adjustment to assert genuine strategic agency.

This inaugural issue comes at a propitious moment. Conflict in the Middle East has pushed energy prices higher, fuelling inflation and amplifying economic uncertainty across the region. Meanwhile, great power rivalry continues to intensify, raising the stakes for small states and middle powers in an increasingly contested landscape.

Yet, what remains clear is that the Indo-Pacific will not be shaped by the great powers alone. The region's unique diversity, spanning economic and political systems, coupled with deep interdependence through established global value chains, creates real space for small states and middle powers to exercise meaningful agency. They may lack the capacity to dominate the region, but dominance is not the only measure of influence. What small states and middle powers can do is consequential in their own right—they can set agendas, build coalitions, anchor regional institutions, leverage their advantages and hedge competing powers to preserve their autonomy. Acting collectively, they can set norms, change strategic outcomes and provide an environment in which disputes can be resolved diplomatically.

The essays in this issue reflect the complexity of this challenge. Sarah's analysis shows that middle powers are already leveraging diversified partnerships and minilateral coalitions to maintain strategic relevance, while Kanti reminds us that middle powers are a heterogeneous group and their structural constraints are very real and cannot be wished away. Tomoo's contribution offers a Japan-centred perspective on how a middle power can convert great-power rivalry into an opportunity to expand strategic autonomy while contributing to a more multipolar regional order.

The great powers may indeed set the stage, but they do not necessarily write the whole script.

Denis Hew is a Senior Research Fellow at the Centre on Asia and Globalisation, Lee Kuan Yew of Public Policy, National University of Singapore. His social media handle is @denishew.