



Japan's New Policy Options in a Transition to a Multipolar World

By Tomoo Kikuchi

Small states and middle powers (SMPs) do and should exercise collective action to shape the Indo-Pacific, as this offers a more favourable outcome than aligning their interests with either great power.

The global order is increasingly shaped by the US and China shocks. US shocks are evident in the turn towards protectionist trade policies, withdrawals from many multilateral institutions and initiatives, and willingness to engage in abrupt warfare without broad international backing. Meanwhile, China shocks, stem from Beijing's pursuit of industrial policies aimed at securing dominance in strategic industries and technologies, at the expense of participating in established international production networks. China's territorial claims and

assertive behaviours in the South and East China Seas remain a central source of regional tension as well.

The liberal economic order, from which countries across the region have benefited for decades, has been steadily eroded by the great powers. Neither the US nor China now maintain conditions that are conducive for open trade and shared prosperity. But it is not true that SMPs are just suffering what they must while the great powers do what they can.

SMPs do possess meaningful collective agency. Their responses to systemic shocks emanating from great powers determine the scope of that agency. In other words, what SMPs perceive as unilateral actions by great powers are, in fact, strategic decisions shaped

by the expected reaction from them. Therefore, it remains in the interest of the SMPs to maintain free trade among themselves even when they lack the capacity to compel great powers to fundamentally change course.

Overreliance on a single country for critical inputs, such as energy, critical minerals, semiconductor chips, creates clear vulnerabilities to economic coercion. SMPs must cooperate or coordinate to weather the dual shocks from the great powers. Diversification entails real costs, often at the expense of operational efficiency, but it ultimately strengthens domestic economies and enhances resilience to external shocks.

Such a strategy is not necessarily negative. Sino-American rivalry and the US's retrenchment from its role as the guardian of prosperity and security reflect the behaviour of a great power in relative decline. In response, SMPs are mitigating the damage of this power transition and adapting to a changing order. For a country like Japan, this shift creates a new policy space. Changes in domestic political discourse in Japan have made previously unviable options more acceptable. Meanwhile, confidence in US security guarantees can no longer be taken for granted. The post-war period, under which the US underwrote Japan's security, allowing it to maintain relatively low defence spending was an exceptional period and is now coming to an end.

The Takaichi Administration has placed the revision of Article 9 of Japan's Constitution firmly on its agenda, signalling a shift away from the country's long-standing pacifist constitution. It does so with the **highest approval rate** in decades. If realised, such reforms will expand the operational flexibility of Japan's Self-Defence Forces and allows stronger support for the defence industry, dual use technology and weapon exports. They will also broaden Japan's security cooperation beyond the Japan-US security treaty to include European and other like-minded partners in the region. On the economic front, this means more proactive industrial policies, including subsidy and tax breaks for strategic industries aimed at making Japan indispensable to global supply chains. It also entails diversifying sources of natural resources such as oil and gas, as well as other critical minerals.

SMPs are navigating a shift toward a multipolar world. This transition—enhancing resilience and reducing reliance on either great power—requires significant and often costly reorientation. This is how SMPs shape the Indo-Pacific and influence the trajectory of Sino-American rivalry—not through binary alignment, but through more organic, cumulative contributions to the emergence of a renewed multilateral order. Collective action among them offers a better outcome than a world divided by alignment with either great power.

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