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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.

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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.

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How Middle Powers Shape Regional Order in the Indo-Pacific

By Sarah Teo

Image Credit: Flickr/U.S. Department of State

At the World Economic Forum in Davos in January 2026, Canadian Prime Minister Mark Carney delivered the now-famous speech on the erosion of the old order, emphasising the imperative for middle powers to "develop greater strategic autonomy" and to collectively "build something bigger, better, stronger, more just". Carney's speech drew mixed responses from analysts, with some **welcoming** his vision for middle powers to step up and others **expressing scepticism**.

The capacity of **middle powers** to shape international outcomes has frequently been debated. It is admittedly true that in many domains, the great powers naturally dominate, as realists have argued. Yet, this does not mean that middle powers are powerless. While they cannot unilaterally shape outcomes, they can play a constructive role—particularly when acting together—in fostering a stable order that safeguards the interests of less powerful states.

Amid today's volatile geopolitical environment, the constructive contributions of middle powers would be more vital than ever. In the Indo-Pacific, middle powers have demonstrated meaningful agency in at least two ways.

The first involves middle powers actively broadening and diversifying their relationships. In recent times, Indo-Pacific countries have sought to deepen ties among themselves. One approach has focused on enhancing "spoke-to-spoke" connections among US allies, marking a shift from the "hub-and-spoke" characterisation in which US allies primarily relied on Washington as the central coordinating hub. Over the past several years, for instance, ties between **Australia and Japan**, as well as **Japan and South Korea**, have strengthened.

Another approach sees middle powers reinforcing partnerships beyond traditional alliance frameworks, thereby broadening options. An example would be the Australia-Indonesia Treaty on Common Security that was signed in February 2026. While this is

not the first agreement between the two middle powers, the new treaty commits both countries to consult at the leaders' level; this represents a **step up** from the 1995 Agreement on Maintaining Security, which mandated consultations only at the ministerial level.

By expanding their networks, middle powers foster an environment conducive to cooperation based on shared interests and create channels for dialogue that serve the broader region. At the same time, these efforts reflect a deliberate attempt to reduce dependence on any single power, which overall promotes a more inclusive and balanced regional order.

The second way that middle powers in the Indo-Pacific have exercised agency is in advancing small-group coalitions. Although such coalitions are not new, they have come to be framed within the rise of minilateralism, closely **tied** to the increasing salience of the Indo-Pacific construct since the late 2010s.

Regional countries such as Australia, Japan and the Philippines have been particularly proactive as participants of minilateral arrangements, with agendas spanning **critical minerals**, **supply chain resilience**, and **maritime security**. In theory, these coalitions enable like-minded middle powers to **pool** resources and influence to address challenges of common concern. Admittedly, as some scholars have noted, the actual **effectiveness** of minilateralism remains underexplored.

Others have cautioned that minilateral groupings with a **strategic** emphasis, in the context of great power rivalry, may **deepen polarisation** within the regional order. These observations underscore the **importance** of keeping minilateral initiatives issue-based and complementary to bigger multilateral institutions, ensuring they reinforce rather than fragment the wider regional architecture.

This points to a broader responsibility for middle powers, specifically, ensuring that multilateralism itself remains fit for purpose and continues to provide a valuable avenue for regional stakeholders. Middle powers have conventionally relied on and invested in multilateral institutions because such frameworks amplify their voice and influence, encourages predictability in state behaviour, and helps to level the playing field vis-à-vis the great powers. In the face of current **challenges** to multilateralism, middle powers are arguably well-positioned to help strengthen and adapt it.

For all its flaws, multilateralism continues to matter, particularly because it promotes inclusivity and enhances legitimacy. Middle powers could shore up multilateralism by identifying and working to address gaps in existing frameworks, forging and sustaining partnerships where interests align, as well as ensuring that issue-based coalitions complement the agenda of broader multilateral arrangements.

There exists much potential for middle powers to constructively shape regional dynamics—by ensuring that the Indo-Pacific remains a space where smaller states can exercise agency, sustaining inclusive multilateral cooperation even amid great power rivalry or disengagement, and preserving regional stability.

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Two Limits on Middle Power Activism in the Indo-Pacific

By Kanti Bajpai

Image Credit: Wikimedia Commons/U.S. Army National Guard by Spc. Elaina Nieves

One of the great security worries of small and medium powers (SMPs) in the Indo-Pacific is the rivalry between China and the US – how it could lead to a kinetic conflagration over (say) Taiwan, and how it could increase pressures to take sides between the two great powers, thereby reducing SMP agency. The region also faces other security dangers, including non-traditional security challenges. The focus of this essay, however, is the China-US rivalry on the SMPs.

A standard view is that, among SMPs, the middle powers are particularly adept diplomatically. Like the middle classes in a society, they can influence the more powerful and the weaker. They are good communicators and persuaders, and they are practised in working international institutions to protect themselves and smaller states from the great powers.

This view presents a rather rosy picture of what the Indo-Pacific middle powers can do to shape a more stable and cooperative environment amidst China-US rivalry. For at least two reasons, the Indo-Pacific middle powers will find it difficult to calm the region and promote collective action. The middle powers in question are the larger ASEAN member states, namely, Indonesia, Malaysia, the Philippines, Thailand, Singapore, Vietnam, as well as Australia, India, Japan, and the Republic of Korea (ROK).

The first constraint on the activism of the regional middle powers is that they are a disparate group, with different geographical locations and histories. They therefore have different strategic interests. These differences impair their ability to respond collectively to the China-US rivalry.

For reasons of geography and/or history, Japan, ROK, and the Philippines are US allies, as is Australia. Others for the same reason are more neutralist, such as Indonesia, Malaysia, Singapore, Thailand, and Vietnam. India, by geography and history, is even more neutralist. Strikingly, though, whether the middle powers are formal allies of the US or are more neutralist, they are all closer to the US on security because of their concerns about the nearby behemoth, China. All of

them have defence arrangements with the US. Some have military agreements with China as well, but even those middle powers are closer to the US on security in the sense that they look to the US as a "backstop."

At the same time, except for Australia, Japan, and ROK, the Indo-Pacific middle powers are more convergent with China on various global norms and institutions.

The Indian case is illustrative. India, like China, rejects US and other Western criticism of its domestic politics (e.g. human rights violations, treatment of minorities, etc.). In common with China, it supports hard sovereignty on issues such as social media regulation, internet governance, and humanitarian intervention. In addition, both countries, as developing economies, want exceptional treatment on global economic norms and global climate change. Finally, together with China, India argues for reform of international institutions to give greater voice not just to Beijing and New Delhi but also others of the Global South.

It bears saying that India and other middle powers are not closer to the US on security because the Americans have bullied them; nor are they closer to China on international norms and institutions because Beijing has twisted their arms. They converge with the two great powers, in different realms, because of their own histories, political systems, economic imperatives, and cultures.

The second constraint on the ability of middle powers to shape norms and institutions in the Indo-Pacific is the existence of enduring bilateral tensions and rivalries within the group. For instance, Japan and ROK continue to differ over Japan's role in the Korean Peninsula from the late 19th Century to the end of World War II and the Dokdo/Takeshima territorial dispute.

Indonesia, Malaysia, and Singapore have become closer over the decades, but bilateral differences and tensions remain, especially Indonesia-Malaysia and Malaysia-Singapore. Singapore was once dismissively referred to as the "little red dot" by former Indonesian president, B.J. Habibie. Malaysia and the Philippines have never quite resolved their competing claims over Sabah. Thailand is wary of Malaysian attitudes to the treatment of Thai Muslims in its southern provinces. And Indonesia and Australia continue to harbour strategic mistrust of each other.

India has historic ties to Southeast Asia and does not have core disputes with the middle powers in the region (e.g. over territory). But in the second half of the Cold War, Indonesia, Malaysia, and Australia viewed the expanding Indian Navy with increasing suspicion. Jakarta even now is watchful of New Delhi's pretensions to leadership in the Indo-Pacific. With Kuala Lumpur, there have been quarrels over Malaysia's stance on India-Pakistan territorial disputes, its public comments on the treatment of Indian Muslims, and issues surrounding the treatment of its Indian minority.

On the economic front, Southeast Asians are still upset by India's last-minute withdrawal from the Regional Comprehensive Economic Partnership (RCEP) and feel that New Delhi does not prioritise ties with the region. For its part, India insists that the trade agreement with ASEAN needs revision and that some Southeast Asians act like China's "B-team" (in the widely reported words of Piyush Goyal, India's Minister of Commerce and Industry).

All of this is not to say that the middle powers are irrelevant to the future of the Indo-Pacific and are fated to be mute spectators to the China-US rivalry. But it is to say that for all the interest in middle power activism to help manage the consequences of great power conflict, their effectiveness will be limited by differences amongst themselves, differences that both China and the US will be tempted to deepen and exploit.

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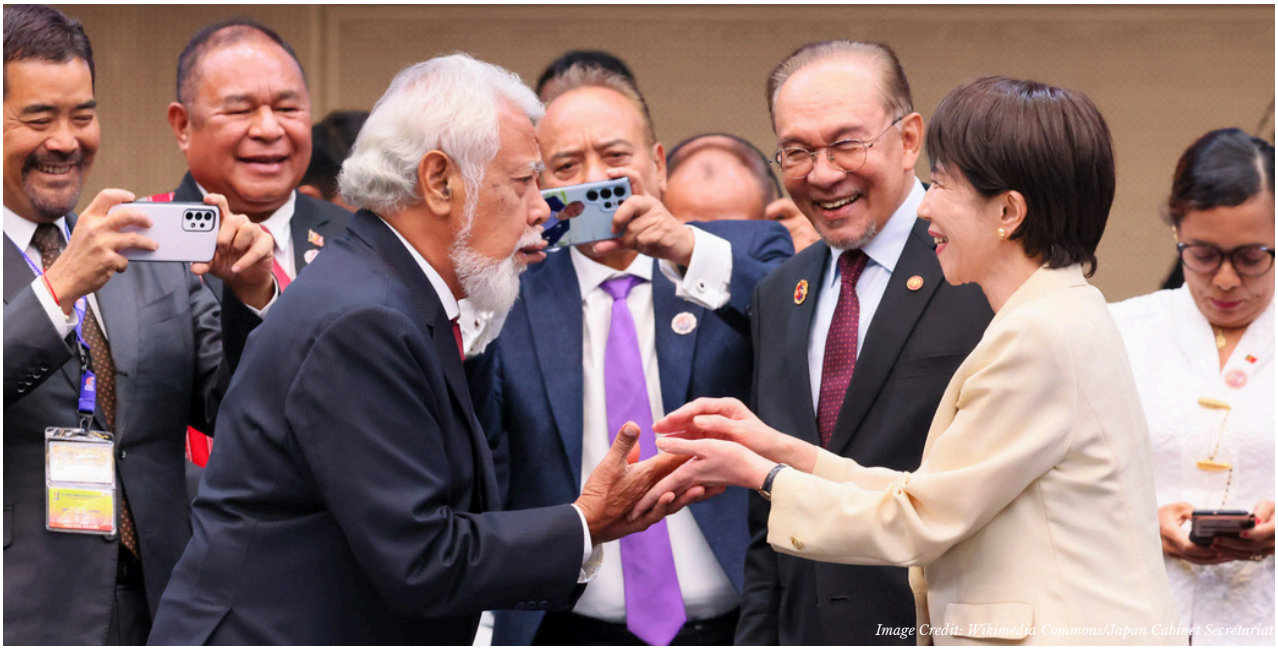

Japan's New Policy Options in a Transition to a Multipolar World

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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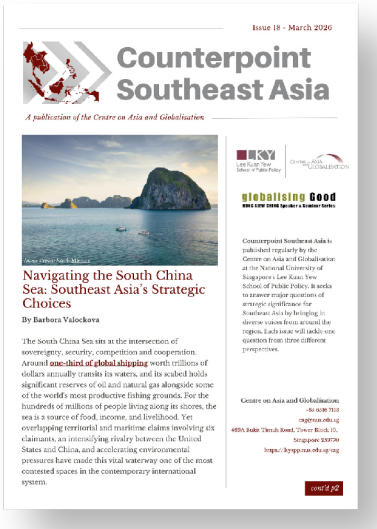

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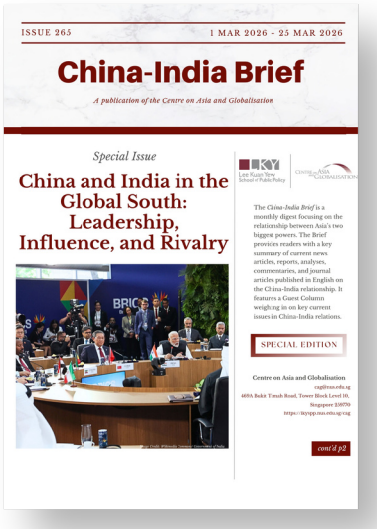

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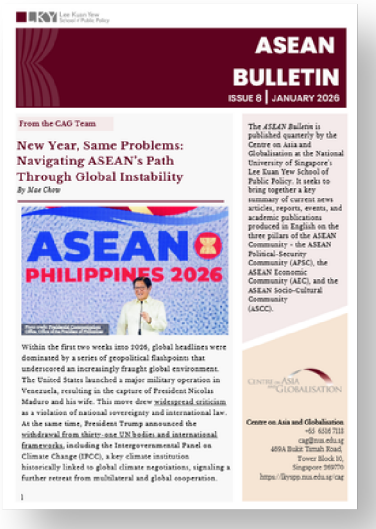

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