Geopolitical Shifts and New Strategic Directions

in Northeast Asia and the Indo-Pacific

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We meet at a moment of profound transformation. The international order is undergoing seismic change—not just in magnitude but in nature. Structural, ideological, and institutional foundations are being reshaped, and what once appeared stable is now contested. These are not cyclical disturbances. They are transformations in kind, not just in degree.

Nowhere is this more visible than in the Indo-Pacific. At its core lies Northeast Asia—the region's most strategically sensitive zone. This is the fulcrum where great-power rivalry, historical trauma, military risk, and alliance restructuring converge. The trajectory of this region—toward confrontation or cooperative resilience—will hinge not only on superpowers but increasingly on the choices of middle powers and their capacity to build new institutional architectures.

I. Geopolitical Shifts in the Indo-Pacific and Northeast Asia

The Indo-Pacific is shaped by three interwoven structural shifts that define the new global context and are acutely felt in Northeast Asia:

(1) The Intensifying U.S.–China Rivalry and the Return of Historical Traps

The defining strategic reality of our time is the intensifying rivalry between the United States and China. What began as a trade war has metastasized into a full-spectrum contest—military, technological, normative, and financial. In Northeast Asia, the friction is most pronounced: the Korean Peninsula, Taiwan Strait, and East China Sea have become zones of kinetic risk.

The **Thucydides Trap** is no longer a metaphor. U.S. Indo-Pacific Command has undergone force posture realignment, Japan is set to double its defense budget by 2027, and trilateral missile-defense integration is accelerating. The 2024 RIMPAC exercise was the largest in history, involving 29 nations—a signal of preparation rather than deterrence alone.

At the same time, the **Kindleberger Trap** looms: a vacuum of global leadership. The U.S., constrained by domestic polarization and a possible second Trump term, increasingly questions its commitment to global public goods. China, despite its ambition, is unwilling to take on stewardship—preferring transactional influence through the BRI and renminbi bilateralism. As a result, the Global South—facing debt distress, food insecurity, and climate volatility—finds no reliable provider of order.

As Joseph Nye warned, we are sleepwalking into catastrophe. Like 1914, leaders believe escalation can be managed—but the structural tensions suggest otherwise. Taiwan, in this analogy, is not just a flashpoint but the modern-day Sarajevo.

(2) China's Strategic Unraveling and the Crisis of Narrative Authority

For years, China was perceived as the inevitable successor to U.S. global leadership. But its trajectory is increasingly fragile. In 2023, youth unemployment surpassed 21% before authorities stopped reporting it. The real estate sector—25% of GDP—has entered systemic crisis, with defaults from Evergrande to Country Garden eroding household wealth. China's working-age population is shrinking fast, with UN projections showing a decline of over 100 million by 2040.

Externally, Beijing has suffered a **global perceptual decline**. Its crackdown in Hong Kong, alignment with Putin post-Ukraine, and coercive diplomacy against Australia, South Korea, and Lithuania have alienated democratic partners. Within ASEAN, ISEAS 2025 polling reveals that over 70% of strategic elites now view China as a revisionist threat rather than a benign partner.

Rumors in mid-2025 about Xi Jinping's political or health vulnerabilities—while likely exaggerated—gained traction precisely because China has lost narrative control. Yet this does not mean China is retreating. Its outreach to Africa and Latin America, digital RMB pilots, and regional influence operations show a regime adapting tactically even as it falters strategically.

(3) The Fragmentation of the Liberal International Order and the Rise of Strategic Transactionalism

The most destabilizing shift is not China's strength—but the West's fragmentation. The liberal international order (LIO) rests on institutions, norms, and public goods. While flawed, it provided predictability, legitimacy, and dispute resolution. Its erosion has not yet produced an alternative. Trump-era withdrawals from the Paris Agreement, TPP, and INF Treaty began the trend. Biden's partial restoration efforts—including the CHIPS Act and NATO reengagement—are undermined by growing skepticism at home. In Europe, internal challenges from migration to populism to Ukraine fatigue strain coherence. The G7 has expanded its agenda but not its legitimacy. The UN Security Council remains paralyzed.

In this vacuum, **strategic transactionalism** is taking hold. Countries form flexible coalitions based on interest, not ideology. India balances Quad participation with BRICS engagement. Vietnam hedges between U.S. and Chinese defense dialogues. Even traditional alliances are being tested for reliability.

Yet, as Ikenberry emphasizes, no viable substitute for the LIO has emerged. Institutions like the WTO and World Bank continue to provide critical infrastructure. This is why middle powers—Japan, Korea, Australia, Indonesia—are no longer just users of order but potential designers. Their strategic agency has never mattered more.

II. From Strategic Constriction to Strategic Opportunity

These structural shifts constrain Northeast Asian actors—but also create new strategic windows. Countries like South Korea and Japan, and partners such as Australia, Indonesia, and Vietnam, are caught between rising volatility and emerging room for maneuver.

Constraints:

- **Security Volatility**: North Korea's July 2025 weapons tests, including hypersonic missiles and submarine-launched systems, coincide with renewed Russia-North Korea defense cooperation. Pyongyang's transactional alignment with Moscow—signaled by arms transfers and satellite launches—deepens the East Asian security dilemma.
- **Nuclear Divide**: The region's fault line now runs not only along ideology but **nuclear status**. North Korea, China, and Russia—all authoritarian and nuclear-armed—confront South Korea and Japan, both democratic and non-nuclear. This asymmetry reinforces fears of abandonment and triggers arms-race logics.
- **Japan–Korea Constraints**: Despite the 60th anniversary of normalization, Tokyo and Seoul struggle with bilateral trust. Historical trauma, Dokdo/Takeshima tensions, and public opinion hinder bilateral security cooperation—especially outside the U.S.-brokered trilateral format.
- **China Exposure**: Korea and Japan each send over 25% of exports to China. Indonesia and Vietnam rely heavily on Chinese infrastructure finance and tourism. This asymmetry limits their ability to decouple or fully align with Western sanctions or supply chain reconfiguration.

Opportunities:

- **Institutionalization of Trilateralism**: The 2023 Camp David summit marked a new chapter in U.S.-Japan-Korea cooperation—moving from threat-driven convergence to architecture-driven coordination. Real-time intel sharing, missile early-warning networks, and annual leadership summits are now in place.
- **Minilateral Functionalism**: ASEAN-led platforms remain critical, but issue-based coalitions (e.g., Quad on cybersecurity, IPEF on green tech, AI safety forums led by Korea and Japan) offer speed and precision in delivering public goods.
- **Normative Leadership**: The erosion of great power credibility creates space for middle powers to lead on non-traditional security: digital governance, disinformation, climate security, AI ethics, and food systems resilience.

- **Global Convergence**: Korea's defense exports to Poland and Türkiye, Japan's G7 Global South initiatives, and Australia's AUKUS tech-sharing position these countries not only as regional players but global stakeholders—a role that could be formalized through deeper World Bank collaboration, especially in climate and infrastructure financing.

In short, Northeast Asia is no longer a passive periphery of power. It is becoming a contested center—one where creative strategy, not just capacity, will determine influence.

III. Strategic Institutional Innovation and Middle Power Diplomacy

In an era marked by strategic volatility, institutional drift, and geopolitical fragmentation, middle powers must adopt a new logic of international engagement—one not rooted in material dominance, but in institutional entrepreneurship. This strategic imperative is particularly salient for Indo-Pacific middle powers such as South Korea, Japan, Australia, and Indonesia, which now operate at the intersection of contested global norms and unmet governance demands.

Strategic institutional innovation refers to the deliberate creation, adaptation, or layering of institutional arrangements—both formal and informal—to meet evolving strategic needs. This involves three interconnected logics: i) functional problem-solving through flexible coalitions, ii) norm diffusion through credible institutional design, and iii) agency maximization through diversification of alignments. It builds on Ikenberry's insight that while the LIO is under stress, its institutional density remains a source of resilience—one that can be preserved and adapted through middle power agency.

For Indo-Pacific middle powers, this approach offers four key strategic advantages:

- **Strategic Flexibility in Great Power Competition**: By initiating modular and issue-specific frameworks—such as data governance, semiconductor resilience, or maritime domain awareness—middle powers can evade binary alignments and construct hedging strategies. These arrangements allow countries like Korea and Australia to align with U.S. technology standards while maintaining economic ties with China.

- **Risk Mitigation in Emerging Domains**: As volatility increases in under-governed sectors (cybersecurity, AI ethics, critical minerals), formal alliances are insufficient. Middle powers can lead in shaping regulatory and operational norms, leveraging platforms like the Global Cross-Border Privacy Rules (CBPR) system, the IPEF Supply Chain Council, or the AI Seoul Summit.
- **Normative Influence and Agenda-Setting**: In the wake of declining great power legitimacy, middle powers are well-positioned to fill the normative vacuum. Japan's leadership on infrastructure transparency (G20 Principles for Quality Infrastructure Investment), Korea's engagement in digital ethics and inclusive growth via the OECD, and Australia's push for trust-based AI demonstrate normative entrepreneurship through institutionalized frameworks.
- **Escape from Binary Entanglement**: Institutional pluralism enables middle powers to maintain strategic ambiguity without isolation. Indonesia's simultaneous leadership in ASEAN, G20, IPEF, and BRICS+ showcases how countries can engage multiple governance nodes while advancing national and regional interests.

Institutional innovation in practice goes beyond case-based coordination; it reflects a broader reimagining of the global governance architecture. Key examples include:

- **CPTPP as a Post-Hegemonic Trade Model**: Born from the collapse of U.S.-led TPP, the CPTPP exemplifies how middle powers can sustain high-standard economic governance absent hegemonic enforcement. Its inclusion of digital provisions and dispute resolution offers a prototype for resilient multilateralism.
- **The Quad's Functional Architecture**: Avoiding alliance rigidity, the Quad operates through task-specific working groups—on vaccines, HADR, critical technologies, and maritime security. This functional modularity allows for differentiated participation and wider legitimacy.
- **AI Governance as a New Norm Frontier**: With the West divided and China pursuing state-centric models, countries like Korea, Japan, and Australia are stepping forward to shape AI ethics, transparency, and alignment with democratic values. These efforts—

backed by public-private partnerships and OECD frameworks—signal a new frontier of value-based institutional leadership.

Importantly, these innovations must be embedded within global regimes. For institutions like the World Bank, IMF, or regional development banks, middle powers are no longer passive recipients but key co-constructors of development frameworks. Co-financing arrangements—such as Korea's Knowledge Sharing Program (KSP), Japan's Official Development Assistance (ODA) reforms, or Australia's infrastructure partnerships with the Pacific—offer effective channels to implement global agendas with local legitimacy.

Moreover, these countries' technological leadership in smart grids, clean hydrogen, and digital ID systems can support the creation of 'global digital commons'—areas where the governance vacuum is most acute and the developmental stakes are highest.

IV. Strategic Recommendations: From Risk Management to Rule-Making

To elevate strategic institutional innovation from tactical adaptation to systemic influence, Indo-Pacific middle powers must make a deliberate transition from risk management to rule-making. The following five recommendations offer a roadmap for operationalizing this shift:

- **Nested Multilateralism**
  Rather than accumulating siloed minilateral mechanisms, regional cooperation should be systematically nested within broader governance ecosystems. For instance, trilateral U.S.-Japan-Korea defense cooperation must be linked to Indo-Pacific-wide dialogues such as ASEAN+3, the G20 Sherpa Track, or APEC's digital standards initiatives. This architecture ensures scalability, coherence, and legitimacy—key ingredients for durable governance.
- **Inclusive Issue-Based Coalitions**
  Functional platforms should prioritize problems over ideology. Korea's Smart City initiatives, Vietnam's renewable energy transition, or Indonesia's G20 digital economy dialogues offer issue-specific entry points where both Global South and North actors

can participate. These coalitions are particularly well-suited to align with World Bank and IMF objectives under SDG-aligned mandates. Furthermore, public-private collaboration—especially in AI governance and climate finance—should be embedded from the outset.

- **Normative Anchoring through Institutional Design**
  Middle powers must move beyond rhetorical liberalism. Values such as transparency, inclusion, and accountability should be hardwired into the rules and procedures of new institutions. Whether through open data regimes in digital trade, participatory budgeting in infrastructure finance, or enforceable anti-coercion mechanisms in regional charters, these design elements enhance both credibility and normative diffusion.
  - **Principled Engagement with UN Institutions**
    In a contested global environment, credibility at the UN matters. Abstaining on key votes—especially on human rights in North Korea—undermines broader regional leadership. Korea and Japan must coordinate strategies that bridge security and human rights, using their roles in the Human Rights Council, ECOSOC, and SDG forums to revitalize global norms. Leadership in global refugee protection, sanctions monitoring, and norm enforcement mechanisms should be institutionalized, not ad hoc.
  - **Leadership in Global Financial Governance**
    Middle powers must shape—not just participate in—the future of global capital flows. Korea, Japan, and Australia should lead in three areas:

    - ✓ Sustainable Infrastructure Finance: Develop blended finance vehicles, climate bonds, and sovereign ESG instruments with multilateral partners.
    - ✓ Digital Public Goods: Expand cross-border digital ID systems, open-source AI frameworks, and cyber capacity-building platforms.
    - ✓ Equitable Debt Restructuring**:** Advocate a hybrid model linking Paris Club mechanisms with emerging creditor coordination (e.g., China, Gulf states, and India), with institutional backing from the World Bank and IMF.

Through these initiatives, middle powers can redefine their role from norm followers to norm producers, and from institutional participants to architects.

V. Conclusion

The Indo-Pacific—and especially Northeast Asia—is no longer a passive theater of great power rivalry. It has become a dynamic testing ground for institutional innovation, norm-setting, and strategic agency. In this new landscape, middle powers—particularly South Korea, Japan, Australia, and Indonesia—are not merely peripheral actors. They are emerging as institutional entrepreneurs with the capacity to design credible alternatives to hegemonic governance.

As global power diffusion accelerates and trust in traditional leadership wanes, the next phase of global governance cannot be unipolar or ideologically exclusive. Nor can it ignore the needs of the Global South. The failure to deliver equitable development, debt sustainability, climate resilience, and digital access has created a deepening legitimacy crisis for the global system.

Here, middle powers have a unique role to play—not only as bridge-builders but as co-architects of inclusive, effective, and sustainable governance. Their credibility does not stem from coercion or capital dominance, but from their dual position: advanced economies with democratic legitimacy and lived memory of development challenges. Their institutional innovations—whether in climate finance, digital governance, or supply chain resilience—resonate more strongly when designed in partnership with Global South actors and implemented through platforms like the G20, AI governance forums, or World Bank initiatives.

For institutions like the World Bank, this is a strategic opportunity. Engaging middle powers as partners - not just donors or recipients— in program design, local capacity building, and norm-setting—can revitalize multilateral credibility. Jointly developing scalable models in climate finance, infrastructure, and digital public goods with Korea's KSP, Japan's JICA, and Australia's DFAT can ensure both operational delivery and normative alignment.

In this context, the answer to who will shape the next era of global governance is becoming clear: It will be crafted by coalitions of capable middle powers and Global South partners working together—not around the margins of global institutions, but from within them—through institutional innovation that is inclusive, resilient, and anchored in shared responsibility. If 20th-century governance was driven by the logic of power, the 21st must be shaped by the logic of partnership.