

**The Role of Mid-power Countries in Asia-Pacific**  
**Regional Integration**

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## The Role of Mid-power Countries in Asia-Pacific Regional Integration

Australian Prime Minister Kevin Rudd pointed out, at the end of 2008, that the medium powers in the G20 would play crucial roles in global financial stabilization, climate change, nuclear proliferation and development, and even regional economic cooperation (Economist, 2008). In view of the Asia-Pacific area, we find his proclamation have a great relevance in current situation of regional integration. Furthermore, as we are encountering a range of new modes of regional governance in the Asia-Pacific,<sup>1</sup> we could not help but to raise such questions as “who rules and how?”

Kevin Rudd might have in his mind a primary intention of promoting his own country. However, we find it worthwhile to further explore the roles of the so-called “medium-sized powers” in regional integration, especially when there is an undergoing trend in remapping the regional economic situation as we witnessed the rise of China (and India) along with the demise of the U.S. and Japan in global as well as regional power relations. This also leads to the rise of a new multilevel governance arrangement which tends to be task-specific, exclusive and problem solving (Hooghe and Marks, 2003) which is relevant for managing the “debounded” risks, like terrorism and financial crises, permeated throughout the world.

We will use the Law of the Few as recently explored in economics and political science on how a small subset of a social group will have effective influence on the majority (see, e.g., Galleoti, 2010) to assess the roles of mid-powers in the Asia-Pacific region. The findings would be preliminary, but it is hoped that further studies will ensue to clarify the issues.

The paper will first discuss if the conventional development mode of flying geese in East Asia is no longer applicable in view of changes in regional production networks in recent decades. Then, in the second section, we will demonstrate how to lay a new economic map of the Asia-Pacific with the rise of new great powers of the region. This leads us to ponder next on relevant issues of regional governance if we want to bridge the gap between opposing parties and to manage the debounded risks especially pronounced in the Asia-Pacific. Thereafter, the Law of the Few will be elaborated to pave the foundation for our subsequent discussions on the role of the medium-sized powers, specifically Indonesia, South Korea and Australia, in building up coalition with other members of the region for stabilized integration among them. A tentative conclusion is pursued in the last section.

### 1. End of the Flying Geese Pattern?

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<sup>1</sup> There is a collection of papers in the September 2009 issue of *Australian Journal of International Affairs* which deals in depth the issue of regional governance in the Asia-Pacific. See Hameiri (2009).

The flying geese model of development had been popularized since the 1960s to provide a systemic depiction of East Asian regional order in the post-war period. It described an orderly transfer of industries between countries according to their stages of development. It explained the successive growth pattern: from Japan to the first tier of Newly Industrializing Economies (NIEs), and then to the second-tier NIEs and China.<sup>2</sup> In the course of this orderly development, the East Asian trade and investment mechanism was considered as harmonious and mutually beneficial despite the absence of institutional arrangement. However, in the 1990s, some significant changes took place in the orderly, hierarchical pattern of the region's division of labor, and we may want to raise the question on the relevance of the flying geese model.

The first notable change was that foreign direct investments (FDIs) from the 1980s were increasingly of the outsourcing types that created regional production networks. Bernard and Ravenhill (1995) pointed out that, unlike the earlier FDIs that relocated the whole production, the gains from this relocation of a part of the production process could be one-sided and might not be mutually beneficial. As the subsidiaries of multinational corporations continued to import large portions of intermediate goods from Japan and the NIEs and exported mostly to other developed countries, the gain from technological spillover were limited and their balance of trade became unstable. The hierarchical structure of intra-firm trade inhibited the harmonious successive development and the model lost its relevance as a paradigm for regional cooperation.

The second change was that the procession following a specific development trajectory seems no longer applicable to East Asian economies. In the early post-war period, the leading geese were the U.S. and Japan that enjoyed economic dynamism and technological superiority. However, in the 1990s, the manufacturing sector of U.S. economy had lost its superiority except in some high-tech industries and, therefore, could not play the role of leading goose any more. At the same time, the Japanese economy, in the 1990s, experienced prolonged stagnation and its industries also lost dynamism. The Japanese industries tried to remain competitive by fragmenting production processes and transferring low-end processes to developing countries. On the other hand, the industries of the NIEs reached technological sophistication that could rival some Japanese industries such as information technology. As a result, the neat flying geese forms have been disrupted.

The third factor of changes was that the globalization of the world economy had progressed so far as capital became extremely mobile in the 1990s. As the capital

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<sup>2</sup> The first tier NIEs are Korea, Taiwan, Singapore and Hong Kong while the second tier NIEs are Thailand, Malaysia, Indonesia and the Philippines.

mobility increased, the traditional theory of international trade based on rigid factor proportions should be modified. The factor endowments are no longer relevant criteria in determining comparative advantages of countries. Capital-intensive industries could be established easily in any developing countries when low wages, skilled labor and other economic infrastructures exist. For example, some electronic and machinery export industries in Malaysia and China have leapfrogged several stages of development as envisaged in the flying geese model.

The fourth notable change was that China has become a workshop of the world, producing not only labor-intensive products but also a range of sophisticated capital- and technology-intensive products. Such leapfrogging aroused fears in Japan that China might become a competitor even in advanced industries. However, a counter-example was provided by Kwan (2002) who analyzed trade structures as reflected in U.S. import statistics. He showed that China's export structure lagged behind NIEs' structure and Chinese exports did not compete directly with Japan. He argued that since China's educational level could not be improved in the short run, leapfrogging was a highly unrealistic expectation. Thus he concluded that the flying geese formation has not been disrupted by the emergence of China.

Nevertheless, considering the fact that China is a huge country where multiple and decentralized economic structures could exist, the national average of factor endowments may not be appropriate in determining the comparative advantage. Large disparities existing in regional income statistics and some restrictions on the mobility of labor revealed the dual or multiple structures of the economy.<sup>3</sup> In this case, it would be more appropriate that comparative advantages should be based on regional rather than national average. Furthermore, China's increasing integration with capital-rich Hong Kong and technologically advanced Taiwan has provided a favorable environment for capital and technology-intensive industries. The government policy of attracting FDIs to special economic zones also led to clustering of export industries based on economies of scale.<sup>4</sup>

With regard to China, there seemed a strong argument for her to continue concentrate on labor-intensive industries to absorb surplus labor in rural areas and to balance growth between the east and the west. However, as China is a large economy having monopoly power in trade in many labor-intensive industries, it seems better to consider terms-of-trade changes in exports of certain industries. Thus, It is

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<sup>3</sup> The residence registration system has restricted mobility of labor from inland areas to coastal regions, although the constraint is softening.

<sup>4</sup> Catin, Luo and Huffel (2005) examined polarization of China's development and concluded that, in some coastal provinces, the proportion of high-tech industries is rising rapidly while some labor-intensive activities have begun to de-concentrate. For example, in Shenzhen, the production of high-tech sector reached 46% of total industrial production in 2002 compared to 11% in 1991.

unrealistic for it to merely follow the path of industrial development paved by Japan or the NIEs. Therefore, it would be more appropriate to vision China as flock of geese flying independently to catch up with Japan and the NIEs. Hence, the East Asian economic system is no longer resembling a flying geese formation led by the U.S. or Japan. The paradigm of flying geese model for regional cooperation for a long time seems no longer appropriate in the future.

## 2. The Changing Economic Map of East Asia

It is fair to assume that the integration of China with Hong Kong, Macau and Taiwan has progressed to such an extent that these economies are combined to form "Greater China".<sup>5</sup> Table 1 shows the relative size of mainland China, Hong Kong and Taiwan. The economic power of Greater China is considerably larger than mainland China alone. For instance, the gross domestic product (GDP) increases approximately 11% and trade increases approximately 48% after integration.

Table 1 Composition of Greater China (2010 est.)

	GDP (US\$ billion, %)		Trade (ex. + im.) (US\$ billion, %)		Per capita GDP (PPP)(US\$)
Mainland China	5,745	(89.8)	2,813	(67.6)	7,400
Hong Kong	224	(3.5)	821	(19.7)	45,600
Taiwan	427	(6.7)	526	(12.7)	35,800
Total	6,396	(100)	4,160	(100)	--

Source: CIA, *The World Factbook*.

The integration not only increased the size of the economy, but also generated synergy by increasing human resource pools of entrepreneurs and engineers. From 1991 to 2010, the share of GDP of Greater China in the total world economy increased from 6% to 11% while that of Japan declined from 33% to 8% (see Table 2). Greater China has surpassed Japan as the second largest economy in the world. It is also interesting to note that the U.S. position was still strong, occupying 56%, similar to East Asia's 55% (see Table 2).

Table 2 Changes in GDP (in US\$ billion and %)

<sup>5</sup> Hong Kong has become a Special Administrative Region since 1997. The economic integration between mainland China and Taiwan is also deepening rapidly despite occasional political tensions. Although Taiwan is the sixth investor by official statistics, it might turn out to be the largest if investments were traced to their true origin (see, e.g., Economist, 2005). Some authors extend the concept of Greater China to include Chinese Diaspora in Southeast Asia (see, e.g., Weindenbaum and Hughes, 1996).

	1991		2010	
Greater China	635	(6)	6,396	(11)
Japan	3,362	(33)	5,391	(8)
ASEAN-5	341	(3)	1,649	(6)
Indonesia			695	(3)
Malaysia			219	(1)
Philippines			189	(1)
Singapore			234	(1)
Thailand			313	(1)
South Korea	283	(3)	986	(4)
East Asia-8	4,621	(45)	14,422	(55)
United States	5,611	(55)	14,620	(56)
Total	10,232	(100)	26,270	(100)

Source: Suh (2007), Table 12.1; CIA, *The World Factbook*.

From 1991 to 2004, trade by Greater China soared by 4.2 times, while that of Japan increased only by 1.9 times (Suh, 2007: Table 12.3). As a result, the share of trade of Greater China increased from 19% in 1991 to 30% in 2004, occupying the center stage of East Asian trade. On the other hand, Japan, which had been the largest trading nation in East Asia (23% in 1991), lost its position and its share shrank to 15% (Suh, 2007: Table 12.3).

As to changes in export dependency, Greater China's exports to all its trading partners and to the world as a whole increased nearly fourfold between 1991 and 2004. Furthermore, almost all countries increased their export dependency on the Greater Chinese market. In the case of Japan, the dependency rose from 14% in 1991 to 26% in 2004, surpassing its dependency on its traditional market, the U.S. In the case of South Korea, exports to Greater China soared sharply by 10.6 times, and China's share rose from 10% to 31% over the period of 1991-2004. On the other hand, South Korea's exports to Japan increased by only 1.8 times and Japan's share fell from 17% in 1991 to 9% in 2004 (Suh, 2007: table 12.4). These changes in the direction of trade show that there can be no question as to which country (or region) is more important as a trading partner. The relative importance of the export market can be construed as a relative bargaining power.

In the case of the U.S., Greater China has become the most important partner in East Asia not only as an export market but also as a source of its imports. There were also changes caused by Chinese dynamism in the triangular structure of East Asian trading system. The intra-regional trade by Japan and South Korea rose steeply due to the increase in exports of intermediate and capital goods to China. The Chinese

dynamism also affected ASEAN-5 (Indonesia, Malaysia, the Philippines, Singapore and Thailand), which expanded exports of final consumption goods to developed countries from the 1980s. Its intra-regional exports rose from 51% to 54% due to the China factor and the share of U.S. market fell from 19% to 15% (Suh, 2007: 248).

### **3. Regional Governance**

As the economic map of East Asia has changed and Greater China now occupies a central position in the regional economy, our concern is how regional political economy will be affected by this power shift. As can be seen in the previous section, the economic influence of China is overwhelming because China is providing growth momentum for all regional countries including Japan. Faced with this shift of economic power, Japan seems to be responding politically; it has steadily increased its military expenditure and strengthened its alliance with the U.S.; there is also a strong move to become a normal nation by revising its peace constitution; and it tried to improve its international standing by becoming a permanent member of the United Nations Security Council.

Aaron Friedberg wrote a famous article a decade ago asking whether Europe's past will be Asia's future (Friedberg, 2000). This apprehension about the ramification of the changing global powers and any resulting chaos has led Australian Prime Minister Kevin Rudd to propose an Asia Pacific Community to discuss about the full scope of security matters in the region. It also implies that existing structures and arrangements in place—particularly the “san Francisco” or hub-and-spoke model of international relations with the United States at the center—will become outdated and eventually obsolete (see, e.g., Lee, 2010).

There is a reasonable assumption that China and India would be the new great powers in Asia, alongside with the established powers in the United States and Japan. However, it is the second tier of regional power that is of particular interest to this paper. The second tier would consist of states such as Indonesia, Vietnam, South Korea, and perhaps Australia. Since China's rise is potentially capable of fundamentally challenging and even overthrowing the current U.S.-backed open, liberal regional order, Washington would be forced to offer a greater naval role to New Delhi and Tokyo and would not be happy to extend the same to Beijing. In this sense, Jakarta, Hanoi and Seoul might be offered more prominent seats in existing or future regional institutions.

As state powers transcend national borders in recent decades of significant and substantive transformation of the state itself, there emerged a new mode of regional governance in the Asia-Pacific. These developments also challenge established assumptions about the nature of political rule and the location of power, prompting us

to raise the question: who rules and how? Regional governance intersects with, shapes and is shaped by the process of the contested and uneven transformation of the state. What we have witnessed is the rescaling of governance and policy making to regional space. Jayasuriya (2009) argues that state transformation and regulatory regionalism are effectively two sides of the same coin. As he makes clear, the forces of globalization and regional or global integration are not external to states. State transformation, in turn, is at the core of regional governance. The perceived emergence of a range of spatially and temporally “debounded” risks, such as terrorism, financial crises, crime, infectious disease and environmental degradation, gives further impetus to new forms of regional governance. According to Beck (1999), “debounded” risks are not contained by national borders or calculable time frames, and are therefore seen to escape traditional means of management and insurance. Crucial to Jayasuriya’s (2009) argument is the notion that governance functions, previously associated with the national state or that were within the jurisdiction, are increasingly relocated to new regional spaces of governance opened up within or alongside the state’s domestic governing apparatus. These new governance arrangements tend to be task-specific, exclusive and problem solving.

Viewed from the new forms of regional governance, Rosser (2009) identifies a tentative process of rescaling of state activities into regional governance networks or other regulatory spaces in the Asia-Pacific region. Rosser describes more coercive interventions in so-called failed or fragile states. On the other hand, Nesadurai (2009) examines “softer” regional surveillance and peer review mechanisms in East Asia. She clearly demonstrates the fuzzy interplay and boundary crossing manifested in policy networks, such as the Economic Review and Policy Dialogue process she describes, as well as the way in which these networks have shaped ideas over how finance is to be governed.

The rescaling of governance into various forms of network and multilevel governance has important implications for political accountability, since the new modes of regional governance are forms of political rule that stand in a sort of tension with representative democracy. They tend to exist outside and sometimes beyond the control of the institutions and structures of representative democracy and limit the extent citizens can advance their political rights through representative democratic route (see, e.g., Papadopoulos, 2007). To some extent, this could mean a weakening or even subversion of sovereignty of states. However, as Jayasuriya maintains, regulatory regionalism does not challenge the formal-legal sovereignty of states and their governments, but is rather located “within the already existing frameworks, legitimated in the shadow of international or national government authority” (Jayasuriya, 2009: 342).

A good example is in transnational water governance. Rosario (2009) has shown that governments in Central Asia have been quite successful in resisting the emergence of a new mode of regional water governance by stressing their national sovereignty, despite the clearly transnational nature of water flows and strong pressures from international donors. At the same time, a complex multilevel water management governance mechanism has emerged in Southeast Asia's Mekong region (Hirsch and Jensen, 2006; Lin, 2006), an area of supposedly "strong" states that guard their sovereignty vigorously.

#### **4. The Law of the Few**

Following on from the last point is the issue of the "location of power". Here, we will use the concept of "the law of the few" to elaborate it. As Huckfeldt et al. (2004) has demonstrated, citizens are typically aware of the political disagreements that exist within their personal networks of communications. Disagreements over politics and policy arise even in the smallest and most closely held social groups. Although the political preferences of citizens tend to reflect the partisan composition of their micro-environmental surroundings, few citizens are completely insulated from interaction with others who will disagree with them. An alternative model suggests that individual choices and preferences are subject to the diverse and fluctuating sentiments of a heterogeneous mix of public opinion. Whereas individuals are imbedded within networks of social relations, the preference distributions within these networks are politically heterogeneous and dynamic, and hence the socially contingent preferences of particular individuals are highly dynamic as well (Huckfeldt et al., 2004: 98-99).

The capacity of citizens and electorates for tolerating political disagreement constitutes a central issue in democratic politics. In a free, open and democratic society, citizens are open to persuasion but sympathetic to ongoing disagreement, the social boundaries on political viewpoints are fluid and shifting, and individuals encounter the full spectrum of issue positions and political viewpoints (Huckfeldt et al., 2004: 1). There is ample justification in history to generate concern regarding the capacity of citizens for constructive disagreements (Huckfeldt et al., 2004: 2-3).

The law of the few subsumes that in social groups, a majority of individuals get most of their information from a very small subset of the group, viz., *the influencers*. Moreover, research suggests that there are minor differences between the observable economic and demographic characteristics of the influencers and the others. But it is also found that the influencers have distinctive attitudes which include higher attention to general information and enjoyment in acquiring information. Therefore, it is this small heterogeneity in individual characteristics that distinguishes the influ-

encers from the others (see, e.g., Galeotti and Goyal, 2010: 1469).

From the above-mentioned capacity of citizens and electorates for tolerating political disagreement and the small heterogeneity embedded in influencers, we now want to explore the role of the medium-sized powers in regional governance. This was first raised by Australian prime minister Kevin Rudd in 2008 who claimed that the medium-sized powers “understand that their influence relies on the power of their ideas and the effectiveness of their coalition-building—not the headcount of their population, the size of their GDP or the force of their military arsenal. They have a history of creativity, establishing multilateral institutions and bridging the gap between opposing parties. They can also sustain a long-term focus on specific problems in a way that great powers, juggling competing priorities, often find difficult” (Economist, 2008).

The power of these countries comes from their good institutions contributing to economic growth by reducing uncertainty and improving efficiency, so that fewer inputs are needed to produce an added output. Furthermore, free flexible and open markets shape the incentives to save, invest, work and innovate. So do the protection of property rights and the legal system. Their people all willing to invest in education, capital projects or new product development because they are allowed to protect their investments from appropriation by others and collect the rewards of the risk they have taken. Good educational institutions encourage more and better-quality labor; well-regulated financial institutions protect deposits and accumulate savings and channel them into most productive use. Capable and credible public institutions and bureaucracies carry out functions that substitute for the market when the market fails; they also stabilize and regulate markets and make it possible to achieve social objectives (Dobson, 2009: 10).

There has been doubt on the traditional presumption in international political economy that hegemonic power generally and the actions of the U.S. in particular have been essential forces for stability in the international system. It was argued that the U.S. has often been a force of global instability, as it has opportunistically sought to shift the burden of economic adjustment onto to others (see, e.g., Beeson and Broome, 2010). The expanded role of the Group of Twenty (G-20) is deemed by some as crucial in managing hegemonic instability. Thus, this paper is focusing on those Asia-Pacific countries in the G-20 (South Korea, Indonesia and/or Australia) which were not usually regarded as great powers (or the above-mentioned “second-tier” powers) but certainly could be coined as medium powers, just as Kevin Rudd put it. They are the “few” who have a tradition of “leading by example”<sup>6</sup>, dare to raise “constructive disagreements”, and possess “capable and credible public institutions”.

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<sup>6</sup> I use the words of Kevin Rudd. See Economist (2008).

## 5. Medium-Sized Powers in Regional Governance

Power is an extremely complex concept and is open to a variety of interpretation and definitions. Here we want to distinguish two approaches to power: the neo-realist and the constructivist approaches. The neo-realist approach to power is the most familiar, wherein power is the ability of an actor to get another to do what they otherwise would not have done or not to do what they would otherwise have done. Therefore, neo-realists view tangible power capabilities as ontologically prior to intangible factors of power (Waltz, 1979: 73). So the neo-realist approach has more to do with *coercion* or *domination*.

On the other hand, the constructivist alternative approach emphasizes “competence” motive. Constructivism presents a strong challenge to the neo-realist depiction of material power capabilities and provides an insight that tangible things like guns only acquire their potential power inside socially constructed webs of meaning (Adler, 2002: 102). A burgeoning IR research program closely linked to contemporary constructivism focused on the role of norms in international politics (see Hurrell, 2002). This model of the evolution and influence of norms in international politics suggests that powerful states have at times adapted their domestic institutions in response to international norms that originated elsewhere in the world. Finnemore and Sikkink (1998) point out that the United States and the United Kingdom granted women the vote only after suffrage had been amended in the decidedly non-hegemonic states of New Zealand, Australia and Finland. Therefore, from the viewpoint of constructivists, the exercise of arbitrary domination by a central political authority does not in fact represent a powerful act as is frequently suggested. Domination and coercion from above can only erode and destroy power that grows from below (see, e.g., Arendt, 1969: 13-14). As Arendt writes: “Violence can always destroy power: out of the barrel of a gun grows the most effective command, resulting in the most instant and perfect obedience. What can never grow out of it is power” (Arendt, 1969: 20).

Thus, if we adopt the viewpoint of constructivists on power which suggests an alternative to the combative vision of neo-realists, one that relates actors to their environment and which does not pit one against others.<sup>7</sup> Carroll used the work of psychologist Robert W. White whose research into the “competence motive” suggests that a basic reason why people try to become proficient at “doing” things in the world is because “doing things well” is inherently satisfying (Carroll, 1972: 590). Therefore, we will advance this competence-based conception of power at below to

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<sup>7</sup> This comes out of the 1933 edition of the *Webster's International Dictionary*, which was cited in Carroll (1972).

explore the roles of medium-sized powers in the Asia-Pacific.

If we regard the Association of Southeast Asian Nations (ASEAN) as a medium power in the region in general, and Indonesia as a mid-power country in particular, then we would recognize a common underpinning of several key ASEAN institutions and practices in the principle of “regional resilience”, a concept that is functionally similar to the competence view of power advanced by Carroll (1972). Regional resilience, which was a stated principle of the 1977 Kuala Lumpur Declaration (Wanandi, 2001: 26), is closely related to Soeharto’s doctrine of “national resilience”. According to Dewi Fortuna Anwar (2000; 2001), national resilience has two distinctive features: first, it is oriented towards internal rather than external threats and, second, it is marked by nationalist sentiment that is the legacy of a long history of colonialism. If national resilience is realized in the achievement of domestic stability, regional resilience has a largely parallel aim. Wanandi describes the intent of the principle as follows: “if each member nation can accomplish overall national development and overcome internal threats, regional resilience can result in much the same way as a chain derives its overall strength from the strength of its constituent parts” (cited in Dewitt, 1994: 4). The chain analogy implies that regional resilience is associated with political stability and national development for each member state. The ASEAN’s success in this regard is attributable to the conjuring up of competence power in pursuit of the intrinsic aim of regional resilience.

The most recent manifestation of this success was the formal signing of the Treaty of Amity and Cooperation (TAC) by China and India at the Ninth ASEAN Summit and ASEAN Plus Three (APT) Summit in Bali in early October 2003. Since then, Japan and South Korea have acceded to the treaty with New Zealand, Australia and most recently, the U.S. also signed successively. With so many key Asia-Pacific states agreeing to the TAC principles, ASEAN, under the leadership of Indonesia, can quite justifiably feel it has set the stage for more stable relations across much of the region. As N. Hassan Wirajuda, Indonesian foreign minister, has noted, there are now “almost three billion people grouped under the same rules of good conduct” (*BBC News Online*, 2003; cited in Eaton and Stubbs, 2006: 148).

The next candidate(s) for medium-sized powers should be South Korea, as well as Taiwan. Even though Taiwan is not, and will never be, a member of the G-20, with its autonomous economy and society, it is comparable, economically and militarily, to South Korea and other mid-power economies in the region. Both South Korea and Taiwan spend about 2.5 percent of their GDPs on the military,<sup>8</sup> which are far less compared to North Korea and Mainland China. However, both economies have the

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<sup>8</sup> These are estimates of the CIA, *The World Factbook*.

resources and the technological capacity to far outstrip over the long run the military capacity of, at least, North Korea. The rise of an educated urban “middle class” that unleashed forces has led to a shift from autocracy to genuine multi-party democracy in both economies. Since the transition to multi-party democracy in both countries is now complete, stability in them is therefore not under any threat from within.

If we disregard politics, the future of Taiwan would be tightly and inextricably tied up with the mainland Chinese economy. Both South Korea and especially Taiwan have very large investment in mainland China. They would have large advantages over their East Asian neighbors as platforms for multinationals dealing with China as well as for their own business people. In other words, they are the main information acquirers who are widely accessed by the others, viz., the “influencers” as we discussed in the Law of the Few in the last section.

Both countries understood very well from the beginning that one of the crucial rules of economic development is that profits come from market imperfection. An important source of market imperfection is in technological advancement. Unequal access to modern technology thus creates imperfect markets. A century and half ago, Friedrich List formulated the basic principle of economic realism for the industrial age. He stipulated that the popular British school of free trade was technically fooling themselves in believing that nations can promote and further their prosperity by the exchange of agricultural products for manufactured goods (List, 1909: Third Book). The result for latecomers in industrialization was to face the risk of getting pushed into raw material exporting or intermediate product producer roles. Interestingly, countries that escaped from the follies described by List, such as Japan, South Korea and Taiwan, are located at the bottom of the rank order of national economies according to their level of transnationalization as published by UNCTAD’s annual *World Investment Report* (see, e.g., Houweling and Mehdi, 2003: 368).<sup>9</sup> These countries are outliers in the systemic process of income polarization underway since the mid nineteenth century (Bairoch and Levy-Leboy, 1981; cited in Houweling and Mehdi, 2003: 368).

From outlier to central player, South Korea is taking pride in its democratic credential and strong economy. As one of two Asian members in the Organization for Economic Cooperation and Development (OECD), South Korea is charting a new course to befit its new-found status at the forefront of East Asia. In 2009, ASEAN and South Korea held their Commemorative Summit to celebrate 20 years of bilateral re-

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<sup>9</sup> Japan and South Korea are at the bottom of UNCTAD’s ranking order of high-income economies in terms of the contribution by foreign entrepreneurship to exports, capital formation and GDP.

lations which showcased a brand new ASEAN-Korea Centre based in Seoul to promote South Korea's trade and investment ties with ASEAN countries and to highlight the ASEAN-Korea free trade agreement. Moreover, South Korea announced a considerable increase in its official development assistance for developing ASEAN countries. The development assistance has long been a cornerstone of Japan's soft power in the region. And South Korea is now poised to flex some soft power projection of its own to the benefit of poorer Asian countries and to help reduce the income gaps among ASEAN members in particular (see, e.g., Thitinan, 2009).

As it views itself as a benign and benevolent medium power, South Korea's "green" strategy warrants attention. On the 60<sup>th</sup> anniversary of the founding of the Republic of Korea in August 2008, the President proclaimed "Low Carbon/Green Growth" as the nation's vision to guide development during the next 50 years. Thus, the government announced in July 2009 the "national Strategy for Green Growth" up to 2050, which includes mitigating climate change, creating new engines for economic growth and improving the quality of life (Jones, 2010). Korea's target is not conditional on international agreements and support. Its ambitious plan of voluntarily reducing greenhouse gas (GHG) of 30% by 2020 relative to the "business as usual" (BAU) baseline<sup>10</sup> transcends immediate security concerns on the Korea peninsula with a forward-looking role for Seoul on the international stage. Its efforts to tackle global warming and other ecological concerns as a national strategy on a long-term basis are praise-worthy.

Australia is another important medium-sized power in the Asia-Pacific. It did not hesitate to take leadership role in such complex operations as the 1999 East Timor independence movement and the 2003 Regional Assistance Mission to Solomon Islands (RAMSI). It has built counter-terrorism cooperation with regional partners, especially Indonesia, to whom it doubled its commitment of annual assistance from 10 million to 20 million Australian dollars since 2005 (JCLEC, 2004). This represents a distinctive shift away from its previous position.

Prior to 2003, the Australian government's approach to development aid was characterized by a hesitance to interfere in the domestic affairs of aid recipients (Wainwright, 2003: 8). Clapton (2009) suggests that this shift is due in large part to the Australian government's perception that it sits on the cusp of an "arc of instability" or "Asia-Pacific zone of risk" comprised of weak states and economic and political instability, one which could potentially provide an environment conducive to the origination of various risks to Australian security, such as terrorism, illegal migration,

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<sup>10</sup> The BAU baseline makes assumptions on oil prices (from Energy Information Agency), population (official projection) and economic growth (Korea Development Institute).

transnational criminal activity, etc. Australia's attempt at risk management is the emergence of a new mode of hierarchical governance within the Asia-Pacific. As we mentioned above, those "debounced" nature of new security issues has exposed regional decision makers to high levels of uncertainty and "unknowing" (Aradau and Van Munster, 2007: 90). It is with regard to the potentially dangerous environment that the ideas associated with non-dominant and non-coercive versions of powers in regional governance mentioned above are important.

The United States clearly informed its strategy for winning the War on Terror: "The long-term solution for winning the War on Terror is the advancement of freedom and human dignity through effective democracy" (White House, 2006: 9). The Australian government has also identified the promotion of liberal values as a means to enhance national security, particularly in the Asia-Pacific (see, e.g., Downer, 2006). As Clapton proclaimed, it is precisely the perception of new debounced risks to Australia's security, couple with the notion that the appropriate way to deal with such risks is to reshape the potentially dangerous socio-political environments of failed and illiberal states, that has led the Australian government to adopt a new interventionist mode of regional governance in the Asia-Pacific (Clapton, 2009: 421).

In the case of RAMSI, it is important to note that at the time of RAMSI's intervention there was no substantial evidence of a direct threat to Australian security posed by the situation in the Solomon Islands, nor was there any credible evidence to suggest the presence of terrorists or transnational criminal groups within the Solomon Islands (Greener-Barcham and Barcham, 2006). Instead, the new-found concern for the deteriorating situation in the Solomon Islands arose from the possibility that if left unchecked, the Solomon Island state might totally collapse, possibly inviting terrorists and transnational criminals to use the Solomon Islands as a launching pad for activities in the region (Dinnen et al., 2006). RAMSI was launched largely to set the state-building agenda with little input from the Solomon Islands government or people. In effect, RAMSI exercises extensive influence and control over several key institutions without any mechanism of accountability between RAMSI and the Solomon Islands people. Rather, RAMSI personnel are predominantly accountable to interdepartmental committees within the Australian government. RAMSI's operation is to achieve prosperity and stability in the Solomon Islands by reshaping existing institutions and social structures to reflect "liberal values" and notions of good regional governance. Therefore, RAMSI's lack of accountability to the Solomon Islands belies the talk of a "partnership" with the Solomon Islands, instead suggesting a hierarchical relationship between Australia, as the benevolent state-builder, and the Solomon Islands, the weak, potentially dangerous state.

As Kevin Rudd pointed out, medium-sized powers are among the most active

contributors to collective security and peacekeeping efforts (Economist, 2008). Australia's active involvement in risk management within the Asia-Pacific region demonstrated not only by RAMSI's intervention in the Solomon Islands, but also other initiatives such as the short-lived Enhanced Cooperation Package (ECP) in Papua New Guinea (PNG) (Clapton, 2009; Dinnen et al., 2006). In short, Australia has effectively claim the authority to police the region, managing risk by regulating the socio-political and economic constitution of Pacific states as a means to manage spatially and temporally debounded risks. This is the typical behavior of the "few", as we mentioned above, who does not hesitate to lead by example, dares to raise constructive disagreement and possesses capable and creditable public institutions.

In sum, medium-sized powers in the Asia-Pacific, such as Indonesia, South Korea and Australia, all showed their distinctive characteristics in regional governance. Indonesia, the largest ASEAN country, endeavored to promote regional resilience by soliciting other regional members to build up competence power along with its circle of alliance. South Korea, a good model for taking advantage of market imperfection, has turned from an outlier into a soft-power wielder who, disregarding international agreements, pursued ambitious and voluntary plans toward regional stability and sustainability. And Australia, who was perceived to sit on the cusp of an arc of instability, dared to fulfill her ideas associated with non-dominant and non-coercive versions of power in managing the debounded security issues of the Asia-Pacific. They all are general information acquirers who at times take initiatives which have influenced not only those followers but also great powers.

## **6. Conclusions**

The Asia-Pacific has been changed in recent decades into a region of heterogeneous development structure and has lost its orderly pattern of division of labor. When the U.S. and Japan are no longer the leading geese of regional production, other powers such as the Greater China rose not to displace the roles played by the former, but to pave a new economic map wherein intra-regional trade rose steeply and the larger bargaining power was held by those who occupies the larger export market.

The power shift in regional economy warrants a careful carousal of political economy of regional governance. The new great powers in East Asia, such as China and India, are of course worth pondering, but the medium-sized powers also worth our attention due to their leveraging strengths. Viewed from the new forms of regional governance induced by a range of "debounded" risks like terrorism, financial crises and environmental degradation, we may want to look into the roles of the "few" who are diligent acquirers of general information and who have great influ-

ence not only on those who followed them but also the great powers who possess central authority.

In this paper, we made a preliminary assessment of how the medium-sized powers may have played specific roles in regional governance of the Asia-Pacific. To counteract the presumed destabilizing force of the U.S., members of the G-20, especially those in the Asia-Pacific, may have a more important role to play in regional governance. As exemplified by Indonesia, South Korea and Australia, we posit that the mid-powers could have played a more active role in influencing other members of the region with non-dominant and non-coercive capabilities in managing governance issues. Specifically, they can conjure up competence power of regional members by pursuing ambitious and voluntary leading plans which may be in disagreement with the great powers but may be so constructive and credible as to build effective coalition to harmonize or even to bridge the differences between opposing parties.

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