



Beyond Balancing: Australia's Dual-track China Policy

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Abstract

This paper disputes the popular view that Australia has embraced a balancing posture against China after ditching its previous hedging policy. This is because a balancing perspective does not reconcile with the fact that Australia still actively cultivates economic ties with China. Instead, this paper proposes a new dual-track approach to explain Australia's China policy. It posits that states can simultaneously pursue balancing and cooperation toward rising powers even after the establishment of threat certainty. Gains from trade with rising powers enhance their long-term aggregate power, which in turn enables more effective balancing against rising powers. Australia, a typical trading state, is particularly motivated to pursue this dual-track strategy toward China to maximize both its security and power. Although this dual-track approach also exhibits the co-presence of balancing and cooperation, it is very different from the hedging approach. While the hedging approach rests on the uncertainty of threats posed by a rising power, the dual-track approach is defined by such certainty. Whereas the hedging approach pursues limited and restrained balancing to manage the security dilemma with rising powers, the dual-track approach practices hard balancing. While the hedging approach uses economic engagement to shape a rising power's intentions and behaviors, the dual-track approach only seeks profit from a rising power's economic ascent. Finally, while the hedging approach allows largely unrestricted economic cooperation, the dual-track approach incorporates geoeconomics to restrict cooperation in security sensitive domains. This dual-track perspective not only offers a new and novel perspective on how states respond to power shifts but also explains the "fear and greed" motto that underlies Australia's China policy.

Introduction

Australia's unambiguous threat perception of China has been clear in recent years. It is most evident in the Morrison government's decision to join the AUKUS, the security alliance with the USA and the UK that allows Australia to obtain nuclear-powered submarines to respond to threats posed by the rise of China. According to Australia's *Defence Strategic Review*

2023, “China’s military build-up is now the largest and most ambitious of any country since the end of the Second World War.”¹

Due to Australia’s certainty about the threats posed by China, many have argued that hedging no longer defines Australia’s China policy. As Alexander Korolev observes, Canberra’s hedging policy has come to an end due to Australia’s decision to join the AUKUS security pact. Instead, Australia has shifted toward balancing to respond to China’s rise.² Ye Xue also argues that Australia has abandoned hedging and embraced an aggressive balancing posture against China.³ As correctly understood by these analyses, hedging is undoubtedly no longer an appropriate perspective to define Australia’s current China policy. This is because hedging ultimately rests on other countries’ uncertainty about the threats posed by China’s rise.⁴ Due to Australia’s certainty of the threat posed by China, hedging has ceased to guide its China policy.

Because of Australia’s obsession with the China threat, other analysts have also suggested that Canberra has embraced a balancing posture against China. For example, William Briggs argues that the Morrison government’s unprecedented decision to acquire long-range missiles is “beating the drums of war” to balance against China.⁵ Ashley Townshend similarly argues that the new trilateral nuclear submarine pact represents Canberra’s unrepresented balancing efforts against China.⁶ George Boone’s most recent study on Australia’s China policy concurs with this view. According to him, balancing is the only viable alternative for Canberra to respond to the threats posed by Beijing, despite Beijing’s economic allure.⁷

While it is true that Australia’s threat perception has motivated it to pursue unprecedented balancing against China, this paper argues that the balancing perspective does not explain Canberra’s continuous economic cooperation with China. Specifically, Australia’s continuing efforts to expand economic ties with China are at odds with the balancing insights of structural realism. According to Kenneth Waltz, the founder of structural realism, when states balance against each other for security reasons, they also seek economic decoupling from one another. In his study of how security rivalry negatively impacts economic relations between states, Waltz argues that states are resistant to cooperating with other countries in security rivalry. According to him, “The high interdependence of states means that the states in question experience, or are subject to, the common vulnerability that high interdependence entails.”⁸ Hence, “States do not willingly place themselves in situations of increased dependence.”⁹ Steve Chan shares this view. As he contends, “Balancing policies would entail forfeiting possible gains that could accrue from cooperation.”¹⁰ According to Waltz, states in security rivalry tend to move toward mutual economic independence.

¹ Australian Department of Defence, “Defence Strategic Review 2023,” p. 23, <https://www.theaustralian.com.au/wp-content/uploads/2023/04/NationalDefence-DefenceStrategicReview.pdf>.

² Alexander Korolev, “Transition from Hedging to Balancing in Australia’s China Policy: Theoretical and Empirical Explorations,” *Australian Journal of International Affairs*, Vol. 77, No. 5 (2023), pp. 548–68.

³ Ye Xue, “Balancing against China with Confidence: Australia’s Foreign Policy toward China in 2020–22,” *Asia Policy*, Vol. 18, No. 1 (2023), pp. 115–41.

⁴ Evan S. Medeiros, “Strategic Hedging and the Future of Asia-Pacific Stability,” *The Washington Quarterly*, Vol. 29, No. 1 (2005), pp. 145–67; Denny Roy, “Southeast Asia and China: Balancing or Bandwagoning?” *Contemporary Southeast Asia: A Journal of International and Strategic Affairs*, Vol. 27, No. 2 (2005), pp. 305–22.

⁵ William Briggs, “Morrison Beating the Drums of War,” *John Menadue’s Public Policy Journal*, 5 July 2020, <https://johnmenadue.com/morrison-beating-the-drums-of-war/>.

⁶ Ashley Townshend, “The AUKUS Submarine Deal Highlights a Tectonic Shift in the U.S.-Australia Alliance,” *Carnegie Endowment for International Peace*, 27 March 2023, <https://carnegieendowment.org/2023/03/27/aukus-submarine-deal-highlights-tectonic-shift-in-u.s.-australia-alliance-pub-89383>.

⁷ George Boone, “Canberra Ties the Knot with Washington,” *East Asia Forum*, 22 February 2024, <https://eastasiaforum.org/2024/02/22/canberra-ties-the-knot-with-washington/>.

⁸ Kenneth Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley, 1979), p. 107.

⁹ Ibid.

¹⁰ Steve Chan, *Looking for Balance: China, the United States, and Power Balancing in East Asia* (Stanford, CA: Stanford University Press, 2008), p. 4.

Indeed, the current China policy of the USA supports this insight. After embracing a pure balancing policy toward China, the USA has also pursued a parallel strategy of economic decoupling. However, Australia's China policy, which actively seeks to expand the economic ties between the two countries, clearly does not fit well with the balancing insight of structural realism.

To fill a theoretical void and clarify the debate over whether balancing now defines Australia's China policy, this study proposes a new dual-track perspective, which incorporates both balancing and cooperation, to make sense of Australia's current China policy. The article argues that countries, especially trading states such as Australia, use economic cooperation with others to enhance their economic prosperity and long-term aggregate power. They are thus motivated to use a dual-track approach to simultaneously pursue balancing against threatening rising powers while also cooperating with them to reap economic gains. Gains from economic cooperation enhance their long-term aggregate power and security. Therefore, balancing and cooperation exhibit strategic coherence with each other, jointly serving the goal of maintaining national security amid power shifts. This dual-track perspective offers a theoretically informed explanation of the "fear and greed" motto that underlies Australia's China policy.

This study suggests that balancing is not the only policy alternative to hedging, which was once employed by Australia. Hence, the end of Australia's hedging approach does not mean it has been replaced by pure balancing, as assumed by a rising number of analysts. The truth is that a dual-track approach now defines Australia's China policy.

First, this article will examine states' policies toward rising powers as prescribed by the structural realist balancing theory and the hedging theory that seeks to correct them. While balancing theory predicts that states embrace hard balancing in the military domain and mutual independence in the economic domain, hedging theory suggests that due to uncertainty states tend to initially pursue a mixed approach toward rising powers that combines limited or restrained military balancing and economic engagement to shape the latter's intentions and behaviors.

The article then advances a dual-track perspective which posits that even after states establish the certainty of threats posed by rising powers, they do not necessarily embrace a pure balancing strategy. Instead, they are motivated to pursue two parallel strategies that seek hard balancing against threatening rising great powers while simultaneously using economic cooperation to reap gains from their rise. Countries, especially trading states, understand that economic exchanges with others are crucial for enhancing their aggregate national power, which buttresses their long-term security. As such, they value the gains from economic cooperation with others, including threatening rising powers. Middle powers, such as Australia, are particularly motivated to pursue a dual-track strategy. On the one hand, they possess significant military capabilities to balance against a threatening great power. On the other hand, due to the existing power imbalance between them, the relative gains issue does not inhibit the middle powers' economic cooperation with the rising great power. These middle powers only care about the absolute gains from economic cooperation. This explains why they are motivated to continue to cooperate economically with a threatening great power while simultaneously seeking to balance against it. In contrast, great power peer rivals, due to their rough power equality, care greatly about the relative gains issue. As such, the USA, while shifting toward a balancing posture against China, also seeks economic decoupling due to fears that China may reap greater relative gains from their economic cooperation and thereby tip the balance of power.

Although this dual-track approach also exhibits the co-presence of balancing and economic cooperation, it is very different from the hedging approach. While the hedging approach rests on the uncertainty of threats posed by a rising power, the dual-track approach is defined by such certainty. Whereas the hedging approach pursues limited and restrained balancing to manage the security dilemma with rising powers, the dual-track

approach practices hard balancing. While the hedging approach uses economic engagement to shape a rising power's behaviors and intentions, the dual-track approach only seeks profit from a rising power's economic ascent. Finally, while the hedging approach allows largely unrestrictive economic cooperation, the dual-track approach incorporates geo-economic motives to restrict cooperation in security-sensitive domains.

This article then analyzes Australia's current China policy, which is defined by the dual-track approach. After jettisoning its previous hedging policy toward China, Australia has not, as believed by some, embraced a balancing posture toward China, which would have required economic decoupling. Instead, Canberra still pursues close economic ties with China while simultaneously adopting unprecedented hard balancing measures against the latter. Through a dual-track approach, Australia seeks to maximize both its security and power. Hence, the approach makes sense of Australia's "fear and greed" motto that has underlined the China policy of every Australian government in recent decades.

Responding to Power Shifts: Balancing vs. Hedging

The anarchic international order profoundly shapes states' motives and behaviors. As argued by Kenneth Waltz, structural anarchy motivates states to be highly concerned with their security, and they must practice self-help to ensure their survival. As he observes, "To achieve their objectives and maintain their security, units in a condition of anarchy—be they people, corporations, states, and whatever—must rely on the means they can generate and the arrangements they can make for themselves. Self-help is necessarily the principle of action in an anarchic order."¹¹ A key self-help action pursued by states is to maintain a balance of power with other states. According to Waltz, "Balance-of-power politics prevails whenever two, and only two, requirements are met: that the order be anarchic and that it be populated by units wishing to survive."¹² Facing power shifts, states must pursue internal balancing measures and external balancing measures to maintain the power balance. As such, structural realism suggests that facing rising powers, other countries are compelled by the anarchic international order to seek to balance against them. As Waltz argues, "Whether or not balanced power is the eventual goal, states are required to engage in balancing behavior."¹³

Moreover, structural realism suggests that states that seek to balance against others are also motivated to pursue mutual economic independence from one another. According to Waltz, as states value security more than other goals in an anarchic international system, those in security rivalry are compelled to minimize economic dependence on each other because it could be exploited by others to harm their national security. This concern pushes states to refuse cooperation with other countries, even motivating them toward economic decoupling from one another, as a function of balancing for security. In his book *Theory of International Politics*, Waltz argues that states "are denied the advantages that a full division of labor, political as well as economic, would provide."¹⁴ As a result, in international politics, "many lament the resources states spend unproductively for their defense and the opportunities they miss to enhance the welfare of their people through cooperation with other states, and yet the ways of states change little."¹⁵ In his view, states tend to forgo absolute gains from cooperation due to the structural constraints of anarchy.

As prescribed by structural realism, facing rising powers that could harm their security, other states should embrace both military balancing and economic decoupling from said

¹¹ Waltz, *Theory of International Politics*, p. 111.

¹² *Ibid.*, p. 121.

¹³ *Ibid.*, p. 117.

¹⁴ *Ibid.*, p. 106.

¹⁵ *Ibid.*, p. 107.

power. The US–Soviet relations during the Cold War support this insight of structural realism. Facing the rise of the Soviet Union after World War II, the USA adopted a pure balancing posture that was simultaneously defined by the mutual economic independence between the two superpowers.¹⁶

However, the rise of China has also challenged the balancing insights of structural realism. Few countries in the Asia-Pacific region initially adopted the above policy responses toward China. In fact, few embraced hard balancing postures against China. As such, David Kang even concluded that the balance of power theory, which was derived from the experiences of the West, does not apply to the Asian context as there is little evidence of other countries pursuing hard balancing against a rising China.¹⁷

In this context, scholars of international relations began to examine hedging as an alternative policy response to power shifts. As they point out, states do not automatically respond to rising powers through hard balancing measures. The key reason is that they are uncertain about the intentions of rising powers. In this context of uncertainty, states are unwilling to commit to hard balancing for various reasons. First, as stated by Randall Schweller, states are reluctant to pursue “inappropriate balancing,” which unnecessarily triggers a costly and dangerous arms spiral because the target is misperceived as an aggressor but is, in fact, “a defensive-minded state seeking only to enhance its security.”¹⁸ Second, hard balancing is a very costly policy choice in the age of economic interdependence. As observed by T. V. Paul, “The level of independence makes intense military balancing very costly in economic terms.”¹⁹

The net consequence of states’ uncertainty about the intentions of rising powers and their reluctance to jump to hard balancing led them to first pursue a hedging policy toward rising powers. As observed by David Edelstein in his study on states’ responses to uncertainty about intentions, “States do not simply assume the worst about intentions.”²⁰ Instead, they pursue a hedging approach that combines cooperation with balancing toward rising powers. As he contends, “States are likely to adopt cooperative strategies toward countries despite uncertainty about intentions under two circumstances: (1) if a state’s intentions are perceived as malleable through cooperation and (2) when strong short-term domestic or international pressures to cooperate are present. Even when these two factors are present, states rarely pursue purely cooperative strategies toward other powerful states. Instead, they hedge their bets by continuing to compete to some extent in case the other state ultimately adopts malign intentions.”²¹

Under the hedging approach, other states first seek to use cooperation with rising powers to manage the security dilemma between them. They understand that the security dilemma can make their relationships with rising powers even more contentious and conflictual through a hard balancing policy. Therefore, they prefer to use engagement and cooperation to promote mutual trust with rising powers.²² As observed by Randall Schweller, engagement “encompasses any attempts to socialize the dissatisfied power into acceptance of the

¹⁶ Paul C. Avey, “Confronting Soviet Power: U.S. Policy during the Early Cold War,” *International Security*, Vol. 36, No. 4 (2012), pp. 151–88.

¹⁷ David Kang, “Getting Asia Wrong: The Need for New Analytical Frameworks,” *International Security*, Vol. 27, No. 4 (2003), pp. 57–85.

¹⁸ Randall L. Schweller, “The Balance of Power in World Politics,” *Oxford Research Encyclopedia of Politics*, 2016, p. 12, <https://oxfordre.com/politics/display/10.1093/acrefore/9780190228637.001.0001/acrefore-9780190228637-e-119>.

¹⁹ T. V. Paul, *Restraining Great Powers: Soft Balancing from Empires to the Global Era* (New Haven: Yale University Press, 2018), p. 16.

²⁰ David M. Edelstein, “Managing Uncertainty: Beliefs about Intentions and the Rise of Great Powers,” *Security Studies*, Vol. 12, No. 1 (2002), p. 12.

²¹ *Ibid.*

²² Charles L. Glaser, “Realists as Optimists: Cooperation as Self-Help,” *International Security*, Vol. 19, No. 3 (1994/95), pp. 50–90.

established order.”²³ These include economic cooperation with the rising powers to both enhance mutual trust and shape the intentions of the latter. It is believed that economically integrating rising powers would give them a stake in the current international order, thereby dissuading them away from challenging the order.

The hedging approach also requires other countries to simultaneously pursue balancing to prepare for the scenario of a rising power eventually revealing revisionist intentions. However, under the hedging approach, other states tend to pursue limited or restrained balancing. According to Denny Roy, other countries’ initial balancing measures against a rising China were characterized by limited balancing efforts, such as moderate military expenditure, constrained military build-up, and conservative alignment efforts.²⁴ Darren Lim and Zack Cooper also see limited balancing efforts under the hedging approach. Wary of the security dilemma, other states first opt for “low intensity” balancing against rising powers.²⁵ This pattern of restrained and subdued balancing led David Kang to conclude that other countries were not even motivated to balance China.

Studies on hedging have made important contributions to understanding how states react to power shifts.²⁶ They correct the deterministic perspective of structural realism, which sees balancing as the “law” of state behaviors. Studies on hedging reveal that states’ foreign policies are constrained by uncertainties about other countries’ intentions. Wary of the political and economic costs of balancing, states first opt for a hedging strategy toward rising powers. It is a rational and cost-effective policy choice in the context of imperfect information. Indeed, hedging was widely adopted by regional countries as their initial response to the rise of China. They, including Australia and Japan, combined limited balancing with political and economic engagement to shape China’s intentions and behaviors. However, hedging, as an initial state strategy to respond to power shifts, rests fundamentally on the uncertainty about the intentions of rising powers. The assumption is that once other states establish the certainty of the threat posed by a rising power, hedging should cease to guide their strategies toward the latter.

Therefore, in the context of Australia’s apparent certainty of the threat posed by China, it is correct for some analysts to claim that Australia has abandoned hedging. However, they are wrong to suggest that Australia has therefore adopted a pure balancing posture. The fact is that Canberra still maintains close economic ties with China, and this defies structural realism’s balancing insights, which suggest that states in security rivalry prefer mutual economic independence. How to make sense of Australia’s China policy is therefore important from an international relations theory perspective. This study proposes a new dual-track perspective to fill the void.

²³ Randall L. Schweller, “Managing the Rise of Great Powers,” in Alastair Iain Johnston and Robert Ross, eds., *Engaging China: The Management of an Emerging Power* (New York: Routledge, 1999), p. 14.

²⁴ Roy, “Southeast Asia and China,” pp. 305–32.

²⁵ Darren J. Lim and Zack Cooper, “Reassessing Hedging: The Logic of Alignment in East Asia,” *Security Studies*, Vol. 24, No. 4 (2015), p. 670.

²⁶ See John D. Ciorciari and Jurgen Haacke, “Hedging in International Relations: An Introduction,” *International Relations of the Asia-Pacific*, Vol. 19, No. 3 (2019), pp. 367–74; Van Jackson, “Power, Trust, and Network Complexity: Three Logics of Hedging in Asian Security,” *International Relations of the Asia-Pacific*, Vol. 14, No. 3 (2014), pp. 331–56; David Martin Jones and Nicole Jenne, “Hedging and Grand Strategy in Southeast Asian Foreign Policy,” *International Relations of the Asia-Pacific*, Vol. 22, No. 2 (2022), pp. 205–35; Cheng-Chwee Kuik, “How Do Weaker States Hedge? Unpacking ASEAN States’ Alignment Behavior towards China,” *Journal of Contemporary China*, Vol. 25, No. 100 (2016), pp. 500–14; Jeffrey W. Hornung, “Japan’s Growing Hard Hedge Against China,” *Asian Security*, Vol. 10, No. 2 (2014), pp. 97–122; Wen Zha, “Southeast Asia amid Sino-US Competition: Power Shift and Regional Order Transition,” *Chinese Journal of International Politics*, Vol. 16, No. 2 (2023), pp. 241–61.

Post-threat Certainty: A Dual-track Alternative to Pure Balancing

As discussed earlier, the hedging approach rests on others' uncertainty about the intentions of rising powers. It is therefore logical to assume that once states establish threat certainty, they will shift to pure balancing against rising powers, as expected by structural realism's balancing theory. Indeed, the China policy of the United States exhibits this shift. After decades of pursuing a hedging approach toward China, Washington has shifted to a pure balancing posture that is accompanied by efforts for economic decoupling.

This paper posits, however, that even after establishing threat certainty, states do not necessarily shift toward a pure balancing approach. Instead, they can pursue an alternative dual-track strategy that combines hard balancing and profit-driven economic cooperation toward rising powers, even those that pose threats to them. This is Australia's strategic choice after abandoning its previous hedging policy toward China. This approach is different from the balancing approach because of its economic dimension. It is also different from hedging despite both incorporating balancing and economic cooperation toward rising powers. While the hedging approach practices limited and restrained balancing while using economic engagement to shape China's behaviors, the dual-track approach practices hard balancing while only seeking to profit from economic cooperation with China.

This combination is shaped by the preferences and motives of states in an anarchic international system, which sees maximizing security for survival as the ultimate goal. States need both power and wealth to ensure their security. As observed by Mastanduno, Lake, and Ikenberry, "Power and wealth are valued because they provide the means to ensure both the state's survival and to pursue other goals within an anarchic and competitive international system. Power, as realists remind us, is a currency with which to purchase security and other valued political goods."²⁷ Indeed, wealth "is a necessary means to power."²⁸

Therefore, as states pursue balancing to ensure security, they also need to gain wealth and power. In the age of interdependence, states use gains from economic cooperation with others to enhance their wealth and power, which, in turn, enhances their national security. According to Masanori Hasegawa, "Internationally, anarchy obligates states to seek power for their survival and independence, and states must pursue wealth as a foundation of power. Foreign economic activities are essential tools to obtain this wealth and power."²⁹

The rise of interdependence creates the context that compels states to seek power through economic cooperation with others. Rosecrance hence rejects Waltz's premise that anarchy forces states to forsake economic cooperation. As he observes, "Interdependent ties since 1945 have come to be accepted as a fundamental and unchangeable feature of the situation."³⁰ While states pursue power, they "do so within a context of accepted interdependence."³¹ Due to interdependence, "no state can aspire to the degree of independence that such concepts have entailed."³² Trading states, which are heavily dependent on trade as a key source of their aggregate power, are particularly motivated to pursue these parallel policies toward rising powers. According to Rosecrance, trading states "recognize that they do better through internal economic development sustained by a worldwide market for their goods and services."³³ As such, pure balancing is not the only alternative to hedging. States can also pursue a dual-track approach after they establish threat certainty about a

²⁷ Michael Mastanduno, David A. Lake, and G. John Ikenberry, "Toward a Realist Theory of State Action," *International Studies Quarterly*, Vol. 33, No. 4 (1989), p. 462.

²⁸ Ibid.

²⁹ Masanori Hasegawa, "Close Economic Exchange with a Threatening State: An Awkward Dilemma over China," *Asian Security*, Vol. 14, No. 2 (2018), p. 160.

³⁰ Richard Rosecrance, *The Rise of the Trading State: Commerce and Conquest in the Modern World* (New York: Basic Books, 1986), p. 141.

³¹ Ibid., p. 33.

³² Ibid., p. xi.

³³ Ibid., p. 24.

rising power. This dual-track strategy can make sense of Australia's "fear and greed" motto when it comes to its China policy. After all, Australia is a typical trading state, with foreign trade constituting over 40% of its gross domestic product (GDP) and China as its largest economic partner.

Middle powers are particularly likely to pursue a dual-track strategy. On the one hand, they possess significant military capabilities to balance against a threatening rising power. On the other hand, the relative gains issue does not inhibit their economic cooperation with this rising great power. The issue here concerns how the relative power of countries affects their willingness to pursue economic cooperation with each other. Snidal's insight can shed light on the matter. As he posits, in a bipolar system, two roughly equally powerful superpowers are obsessed with the relative gains issue, as bigger relative gains by one side can tip the balance of power between the two.³⁴ This concern can explain why the USA, after identifying China as its chief security threat, pursues economic decoupling from China. Washington views Beijing as a threatening peer competitor in a new bipolar system and hence worries that continued economic cooperation would allow China to reap bigger relative gains, thereby tipping their balance of power. For middle and small powers that also view China as a security threat, however, the relative gains issue should be far less salient due to the imbalance of power between the two sides. This imbalance makes relative gains inconsequential for both parties. As one study astutely argues, "Relative gains are more important in some conditions and less in others. For example, the USA would not care too much about the relative gains achieved by Nauru, a South Pacific island state with 9267 inhabitants."³⁵ In turn, facing an emerging superpower such as China, middle and small powers should have minimum concerns for relative gains, as they will not affect the overall balance of power between the two sides. For example, while China's 2023 GDP is US\$18 trillion, Australia's GDP is US\$1.7 trillion.³⁶ Hence, for a middle power like Australia, its economic cooperation with China will not be inhibited by the relative gains issue. Instead, it should only care about the absolute gains from cooperation with China. As a middle power also commands significant military capabilities, it is hence motivated to pursue a dual-track strategy to maximize both security and power.

When states eventually abandon hedging and embrace the dual-track approach, their policies toward a threatening rising power will see changes in both the balancing and cooperation domains. Specifically, it will shift from limited and restrained balancing to hard balancing due to the certainty of threats. Moreover, a state's economic cooperation with a threatening rising power will no longer aim to transform the latter's behaviors and intentions. Rather, economic cooperation only seeks to profit from a rising power's ascent. At the same time, however, other states are also more motivated than before to restrict economic cooperation due to geoeconomic considerations. They will start to limit cooperation in domains that have negative implications for their security.

From Limited and Restrained Balancing to Hard Balancing

Once establishing the certainty of the threat posed by rising powers, other countries would employ hard, even all-out, balancing to ensure their security. As such, the dual-track approach shares the balancing insight of structural realism. Stephen Walt's balance of threat perspective enriches the insight into states' balancing motives. He argues that states are more likely to balance against states showing aggressive intentions rather than merely balance against power shifts. Therefore, the balancing behavior of states under the dual-track

³⁴ Duncan Snidal, "International Cooperation among Relative Gains Maximizers," *International Studies Quarterly*, Vol. 35, No. 4 (1991), pp. 387–402.

³⁵ Feina Cai, "Absolute and Relative Gains in the Real World," *E-International Relations*, 28 April 2011, <https://www.e-ir.info/2011/04/28/absolute-and-relative-gains-in-the-real-world/>.

³⁶ World Bank, "GDP (Current US\$)," <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

approach differs from the restrained balancing behavior under the hedging approach. While states use limited and soft balancing to respond to the uncertainty of threats posed by rising powers, they pursue hard, even all-out, balancing due to the certainty of threats. While states' balancing efforts under hedging are defined by limited internal military build-ups and external alignment efforts, hard balancing under the dual-track approach requires costly military build-ups and comprehensive alignment efforts. According to Paul, "Hard balancing is a strategy often exhibited by states engaged in intense interstate rivalry."³⁷ States, once having established the certainty of threats posed by others, will decisively shift toward hard balancing to ensure their security. Russia's invasion of Ukraine confirmed the certainty of its threat to Europe and, hence, European countries embraced unprecedented hard balancing measures. Germany drastically increased its defense spending to 2% of its GDP. Sweden and Finland, two countries that used to abide by the neutrality strategy, joined the NATO alliance. This shift also matches Australia's increasingly hard balancing posture against China from the post-2010 period to the present. As the Rudd government's 2009 Defence White Paper states, China might be "the strongest Asian Military power, by a considerable margin." It goes on to highlight that "China's stature can be expected to develop a globally significant military capability befitting its size."³⁸

In response to the threat posed by the rise of China, the Rudd government began to launch a series of robust balancing measures. These include the purchase of 12 new Future Submarines and 100 F-35 Joint Strike Fighters.³⁹ To deter China, Rudd's successors have continued to enhance Australia's balancing posture against China. For example, Australia is seeking to acquire nuclear-powered attack submarines and has become the third nation after the USA and the UK to possess Tomahawk cruise missiles. In fact, Australia has positioned itself as an active frontline middle power to counter China's rising revisionist intentions.

From Behavior-shaping Cooperation to Profit-driven Cooperation

Under hedging, other states use economic engagement to promote mutual trust with the rising powers and shape the latter's behaviors and intentions. The end of uncertainty, however, does not mean others will end economic ties with a threatening rising power, as predicted by structural realism's balancing insight. Instead, others may continue to pursue economic cooperation for profit motives. This is because gains from cooperation can enhance their aggregate national power and hence the balance of power vs. rising powers.

As such, the dual-track approach rejects Waltz's view that states cannot pursue economic cooperation under the condition of anarchy and balancing. In his view, due to fear of their economic dependence on others being exploited for political and security reasons, states tend to forgo absolute gains from cooperation. In contrast, the dual-track approach posits that states value absolute gains from cooperation with other countries if cooperation does not jeopardize their long-term security. The logic is that absolute gains from cooperation enhance the aggregate power of states and enable more effective long-term balancing against those that pose threats. As such, the dual-track approach suggests that states possess motives to seek gains through cooperation with other states as a means to maximize long-term security. As mentioned earlier by Mastanduno, Lake, and Ikenberry, wealth underlines power, which in turn provides the means to security for states.

Powell puts the issue into perspective. He focuses on why states seek to maximize absolute gains through cooperation with other states. As he astutely observes, due to security concerns "States are trying to maximize their economic welfare within the constraints imposed

³⁷ Paul, *Restraining Great Powers*, p. 3.

³⁸ Australian Department of Defence, "Defending Australia in the Asia Pacific Century: Force 2030," 2009, p. 34, <https://www.ssri-j.com/MediaReport/Document/AustraliaDefenceWhitePaper2009.pdf>.

³⁹ *Ibid.*, pp. 70–8.

by an anarchic international system.”⁴⁰ He proposes that cooperation between states in an anarchic international system is feasible because states can turn absolute gains into advantages in the form of enhancement of their long-term aggregate power.⁴¹ Duncan Snidal shares the same belief that states are motivated to maximize absolute gains despite the structural constraints of anarchy.⁴² As he observes, except for a tight bipolar system, which sees two superpowers both obsessed with the balance of power, “Relative gains do not limit international cooperation in general.”⁴³

Dong Jung Kim uses a structural realist perspective to make sense of the issue. For him, whether other states should cooperate economically with a rising great power depends on “its contributions to a state’s relative position.”⁴⁴ As he argues, if economic cooperation “is the better option for maintaining or advancing an existing power’s relative position vis-à-vis other major states, as well as compared with the potential great power, then it would be better off pursuing economic ties with the potential great power.”⁴⁵

The dual-track perspective therefore suggests that states, especially middle powers that possess significant military capabilities, are motivated to simultaneously pursue balancing and cooperation toward a threatening rising power. This perspective challenges Waltz’s view that states prefer to forsake gains from cooperation with other states due to security concerns. As observed by Hasegawa, “Realism exaggerates the case that states limit economic interchange with other states, especially threatening states, out of concerns over relative gains and dependence.”⁴⁶ As he goes on to point out, “Realism overlooks the potential that states may enter into close economic exchange with a threatening state due to a desire for economic growth.”⁴⁷

Middle power trading states, such as Australia, are particularly motivated to pursue this dual-track strategy. While employing balancing against threatening rising powers, they simultaneously seek gains from cooperation with them. The gains enhance their long-term aggregate power and hence their ability to balance against these rising powers. Hence, this strategy best explains Tony Abbott’s “fear and greed” remark about Australia’s China policy. Malcolm Turnbull’s doctrine that China is a “frenemy” also tells the dual-track logic of Australia’s China policy.

From Unrestrictive to Restrictive Cooperation: The Rise of Geoeconomics

Although the dual-track approach emphasizes states’ motives to seek cooperation for absolute gains, it also suggests that they will limit cooperation in domains that have negative long-term security implications for them. Fundamentally, geoeconomic considerations also define a state’s dual-track strategy toward a threatening rising power.

Under the hedging approach, other states “hope for the best” for their relations with a rising power. As the latter is not perceived as a security threat, other countries seek to use positive incentives, such as engagement and economic cooperation, to shape a rising power’s behavior and intentions. They hence adopt a largely unrestrictive approach for their economic cooperation with a rising power. The only restricted area concerns military technologies. This approach explains why China used to be able to have access to the most advanced civilian technologies from the West, such as high-end semiconductors, and the

⁴⁰ Robert Powell, “Absolute and Relative Gains in International Relations Theory,” *American Political Science Review*, Vol. 85, No. 4 (1991), p. 1304.

⁴¹ *Ibid.*, p. 1306.

⁴² Snidal, “International Cooperation among Relative Gains Maximizers.”

⁴³ *Ibid.*, p. 722.

⁴⁴ Dong Jun Kim, “A Twenty Years’ Crisis? Rethinking the Cases for U.S. Economic Engagement with China,” *Perspective on Politics*, Vol. 22, No. 1 (2024), p. 284.

⁴⁵ *Ibid.*

⁴⁶ Hasegawa, “Close Economic Exchange with a Threatening States,” p. 165.

⁴⁷ *Ibid.*

related equipment to make these technologies, such as ASML's lithography machines. Moreover, other countries are also not overly concerned by the rising power's investments in their economic spheres, such as infrastructures, and acquisitions of their advanced technology firms.

However, the establishment of threat certainty changes the dynamics of economic cooperation with a threatening rising power. While other states still seek to reap gains from their economic ties with the rising power, they start to incorporate geoeconomics into their policies by restricting cooperation in domains that either increase their security vulnerability or enhance the rising power's aggregate capabilities, which can later harm their security. Hence, other states, while maintaining economic cooperation with the threatening rising power, limit its investment in their critical infrastructures, such as telecommunication networks, in an attempt to minimize their security vulnerability. Moreover, they limit exports of advanced technologies to restrict the rising power's aggregate capabilities.

The first behavior, which seeks to minimize one's security vulnerability, reveals other countries' defensive realist motives. The second behavior, which aims to limit the rising power's power potential, reveals their offensive realist motives. They together reflect the rise of geoeconomics in other states' relations with a threatening rising power. The shift toward more restrictive cooperation contrasts sharply with the largely unrestrictive cooperation under the hedging approach.

The increasing saliency of geoeconomics is unsurprising. After all, the dual-track approach starts from the standpoint of structural realism, i.e., security is the ultimate goal of states in an anarchic international system. The establishment of threat certainty hence redefines states' policies toward those that threaten them. Powell emphasizes that states are willing to abandon absolute gains from cooperation in areas that endanger their national security.⁴⁸ As James D. Morrow also points out, states are only interested in cooperation when "traded goods have little direct military significance." Cooperation will cease if trade has military implications and negative security impacts.⁴⁹ These insights explain Australia's recent policies of banning Huawei from investing in Australia's 5G network and Chinese investments in other crucial infrastructures, such as harbor installations.

Based on the above analyses, we can expect the dual-track strategy to adopt a three-pronged approach that exhibits the following elements: hard balancing, profit-driven cooperation, and efforts to limit cooperation in security-sensitive domains. In the context of Australia's China policy, this strategy seeks to balance China as hard as possible while also profiting as much as possible from its ascent. As such, it seeks to maximize both Australia's security and power.

While the dual-track strategy shares some behavioral similarities with the hedging strategy, they are very different from one another. Although both incorporate deterrence and cooperation toward rising powers, the motives and behaviors are different. This is because the hedging approach fundamentally rests on the uncertainty of the threat posed by a rising power. In contrast, the dual-track approach is defined by the certainty of such a threat. Due to the uncertainty of the threat, the hedging approach pursues limited or "low-intensity" balancing against a rising power.⁵⁰ In contrast, the dual-track approach pursues hard, even all-out, balancing due to the certainty of the threat posed by a rising power. While the hedging approach uses cooperation to mitigate the security dilemma with a rising power, even seeking to transform its external behaviors through socialization and engagement, the dual-track approach uses cooperation with a rising power to seek economic gains only.

⁴⁸ Powell, "Absolute and Relative Gains in International Relations Theory," p. 1316.

⁴⁹ James D. Morrow, "When Do 'Relative Gains' Impede Trade?" *Journal of Conflict Resolution*, Vol. 41, No. 1 (1997), pp. 12–37.

⁵⁰ Lim and Cooper, "Reassessing Hedging," p. 700.

Moreover, while the hedging approach pursues largely unrestrictive economic cooperation, the dual-track approach incorporates geoeconomic motives to restrict cooperation in domains that have long-term security implications. The following table contrasts the hedging and dual-track approaches.

In summary, the dual-track approach is different from both the balancing approach of structural realism and the hedging approach that seeks to correct it. It offers a new interpretation of how states respond to power shifts even after establishing the certainty of threats posed by a rising power. Pure balancing, which requires economic decoupling from a threatening rising power, is therefore not the only policy choice for states after the end of their hedging approach. Middle power trading states, in particular, have strong incentives to reap absolute gains from cooperation with a threatening rising power and they hence opt for the dual-track strategy that seeks to balance this rising power as much as possible while reaping as many gains as possible through cooperation. This is Australia's choice for its China policy after ending its previous hedging approach.

Australia's Dual-track Approach toward China

Since 2010, Australia's China policy has incorporated the logic of the dual-track approach. This parallel approach is shaped by the imperative of both deterring China and seeking gains from the world's largest rising economy.

The dual-track approach is best represented by Tony Abbott's "fear and greed" remark about Australia's China policy. While the fear element drives Australia's hard balancing posture toward China, the greed element motivates Canberra's continuous efforts to expand economic ties with China. Malcolm Turnbull's doctrine that China is a "frenemy" of Australia is another affirmation of this dual-track approach. The Albanese government's *Defence Strategic Review 2023* explicitly lays out the logic of the dual-track approach that sees China both as a threat and as an economic opportunity: "China's military build-up is now the largest and most ambitious of any country since the end of the Second World War. This has occurred alongside significant economic development, benefiting many countries in the Indo-Pacific, including Australia."⁵¹

Australia's China policy hence combines both hard balancing and economic cooperation. Moreover, Canberra has been showing rising concerns over the security impact of cooperation and the consequent efforts to block cooperation in security-sensitive areas, such as 5G networks. China, after all, is now viewed as an unambiguous threat to Australia's national security.

Maximizing Security: Threat Certainty and Hard Balancing

Australia, like other Western countries, pursued a hedging approach toward China after the end of the Cold War. It sought to use engagement to shape China's rise. As Nick Bisley observes, while economic motives also underlined Australia's engagement with China, "the ideas driving engagement have been about more than maximizing economic benefit."⁵² Fundamentally, Australia sought to use engagement to mold China's intentions and behaviors. The thinking was that "economic and diplomatic engagement would help to bind Beijing to a status quo international outlook."⁵³

However, the rise of China's economic and military power eventually unnerved Australia. Under Kevin Rudd, who came into office in December 2007, Australia's strategic perception of China underwent profound changes. Due to a string of bilateral conflicts

⁵¹ Australian Department of Defence, "Defence Strategic Review 2023," p. 23.

⁵² Nick Bisley, "Australia's Engagement with China: From Fear to Greed and Back Again," *International Journal*, Vol. 73, No. 3 (2018), p. 382.

⁵³ *Ibid.*, p. 383.

in 2008 and 2009, his government began to identify China as a geopolitical risk. Indeed, the 2009 Defence White Paper portrayed China as a security threat to Australia and the region.⁵⁴ According to Goodman, “The Defense White Paper echoed with the sound of the China Threat.”⁵⁵ In fact, Australia’s national security pundits, including most politicians, “accept that any future strategic challenge in the region or on the world stage from the Chinese government already represents a China Threat.”⁵⁶ As also observed by Medcalf, “the then prime minister Kevin Rudd launched a defense white paper amid furious concern about China’s destabilizing rise.”⁵⁷ The report signaled the end of Australia’s hedging policy toward China. After all, hedging rests on other states’ uncertainty of the threat posed by China.

As such, the 2009 Defence White Paper hence also triggered the beginning of Australia’s shift toward a dual-track approach. China’s rising military power and Australia’s concerns laid the foundation for the shift. According to Gill, “These concerns are driven first and foremost by the PRC’s dramatic and continuing emergence as a more powerful and capable military player.”⁵⁸ In particular, the People’s Liberation Army (PLA) has seen rapid expansion of its abilities to project power “beyond the first island chain, to including a growing presence in the Indian Ocean, the western Pacific Ocean, and in and around the straits and archipelagos which form the northern approaches to the Australian continent.”⁵⁹ As Gill points out, these developments with the regional balance of power “have contributed to shifts in Australian thinking about China and the potential threats it may pose to Australian interests.”⁶⁰

Chinese policies and behaviors, such as the 2012 Scarborough Shoal face-off with the Philippines, the 2013 East China Sea Air Defense Identification Zone, and the massive island-building projects in the South China Sea that began in 2014, further established Australia’s certainty of the China threat. In particular, China’s island-building in the South China Sea raised Australia’s security concerns. As the 2016 *Defence White Paper* bluntly noted, “Australia is particularly concerned by the unprecedented pace and scale of China’s land reclamation activities.”⁶¹ Due to China’s militarization of its man-made islands, “Australia opposes the use of artificial structures in the South China Sea for military purposes.” Canberra’s new threat perception of China, shaped by the latter’s rising military power and assertive international behaviors, inevitably accelerated its shift toward hard balancing under a new dual-track approach.

Unprecedented Internal Balancing Measures

An intense threat perception of China has encouraged Canberra to pursue unprecedented internal balancing efforts by expanding its military capabilities, especially its maritime capabilities and long-range strike capabilities. As stated by the 2009 Defence White Paper, “The major new direction that has emerged through consideration of current and future requirements is a significant focus on enhancing our maritime capabilities.”⁶²

⁵⁴ Bisle, “Australia’s Engagement with China,” p. 386.

⁵⁵ David S. G. Goodman, “Australia and the China Threat: Managing Ambiguity,” *Pacific Review*, Vol. 30, No. 5 (2017), p. 9.

⁵⁶ *Ibid.*, p. 7.

⁵⁷ Roy Medcalf, “Breaking Down Australia’s 2013 Defense White Paper,” *The Diplomat*, 7 May 2013, <https://thediplomat.com/2013/05/breaking-down-australias-defense-white-paper-2013/>.

⁵⁸ Bates Gill, “Explaining the Troubled Australia-China Relations: A Perspective from Australia,” *China Review*, Vol. 23, No. 1 (2023), p. 250.

⁵⁹ *Ibid.*, p. 252.

⁶⁰ *Ibid.*, p. 253.

⁶¹ Australian Department of Defence, 2016 *Defence White Paper*, p. 58, <https://www.defence.gov.au/about/strategic-planning/defence-white-paper#:~:text=The%202016%20Defence%20White%20Paper%20acknowledges%20the%20fundamental%20contribution%20that,in%20the%20Defence%20White%20Paper.>

⁶² Australian Department of Defence, “Defending Australia in the Asia Pacific Century,” p. 13.

The Rudd government's most significant military acquisitions were 12 long-range submarines to replace the current fleet of six Collins class submarines and 100 F-35 joint strike fighters. As the Rudd government stated, it was a response to a "sudden deterioration" in Australia's security due to China's rise.⁶³ In particular, the decision to acquire 12 long-range submarines constituted an ambitious and unprecedented military build-up for Australia, particularly considering the cost. Indeed, the cost for 12 Barracuda-class submarines from French shipbuilder Naval Group came to a staggering \$50 billion.⁶⁴ At the time, this was the largest defense procurement in Australia's history. Additionally, Australia's plan to buy 100 F-35 Joint Strike Fighters was also a bold balancing measure as it dwarfed Japan's initial order of 42 F-35s in 2011, despite the latter's much larger economy and its geographical proximity to China.⁶⁵

These two measures marked the beginning of Australia's transition toward hard balancing against China. Under a hedging posture, states practice restrained and "limited" balancing to avoid an arms race, which would worsen the security dilemma with the rising power that has yet to be identified as a certain threat.⁶⁶ Indeed, hedging is premised on the uncertainty of the rising power's intentions. According to Schweller, states are wary of "inappropriate balancing," which "unnecessarily triggers a costly and dangerous spiral because the target is misperceived as an aggressor."⁶⁷ However, Australia's 2009 Defence White Paper concluded, to the great dislike of Beijing, that a rising China posed a threat to Australia's security and that of the region.⁶⁸ Indeed, Rudd told Hillary Clinton in a March 2009 meeting that they should be prepared to use force against China "if everything goes wrong."⁶⁹ Hence, Australia saw the need to adopt unprecedented and costly internal military buildups, which signaled a transition toward hard balancing against China.

The Morrison government's decision to buy Tomahawk cruise missiles from the USA, a first for Australia, marked a critical turning point in the country's pursuit of offensive capabilities.⁷⁰ As explained by Euan Graham, "Australia is making major changes to its strategic posture, alluding to the threats posed by China."⁷¹ According to Mark Beeson, the pursuit of long-range missiles and other offensive military weapons was rooted in "Australia's security problems which see threats everywhere." He went on to say that "only a major increase in spending on evermore exotic forms of military hardware can address

⁶³ Jonathan Pearlman, "America Will Not Protect Us, Warns Rudd," *The Sydney Morning Herald*, 2 May 2009, <https://www.smh.com.au/national/america-will-not-protect-us-warns-rudd-20090501-aq6c.html>.

⁶⁴ Paul Karp, "France to Build Australia's New Submarines Fleet as \$50bn Contract Awarded," *The Guardian*, 26 April 2016, <https://www.theguardian.com/australia-news/2016/apr/26/france-to-build-australias-new-submarine-fleet-as-50bn-contract-awarded#:~:text=The%20award%20of%20the%20%2450,%2C%20non%2Dnuclear%20powered%20submarine.>

⁶⁵ Chris Cooper, "Lockheed Martin Wins Japan Order for 42 F-35 Fighter Planes," *Bloomberg*, 20 December 2011, <https://www.bloomberg.com/news/articles/2011-12-20/lockheed-martin-wins-japan-jet-fighter-contract-over-boeing-eurofighter>.

⁶⁶ Lim and Cooper, "Reassessing Hedging," p. 700.

⁶⁷ Schweller, "The Balance of Power in World Politics," p. 12.

⁶⁸ Philip Dorling and Richard Baker, "China's Fury at Defense Paper," *The Sydney Morning Herald*, 10 December 2010, <https://www.smh.com.au/national/chinas-fury-at-defence-paper-20101209-18rel.html>.

⁶⁹ Madelein Coorey, "Rudd Told US to Prepare to Use Force in China," *The Sydney Morning Herald*, 10 December 2010, <https://www.smh.com.au/world/rudd-told-us-to-prepare-to-use-force-in-china-20101206-18mjl.html>.

⁷⁰ Ben Westcott, "Australia Announces \$186 Billion in Defence Spending amid Rising Tensions in the Indo-Pacific," *CNN*, 1 July 2020, <https://edition.cnn.com/2020/07/01/australia/australia-china-defense-spending-morrison-intl-hnk/index.html>.

⁷¹ Euan Graham, "Australia's Serious Strategic Update," *International Institute for Strategic Studies*, 3 July 2020, <https://www.iiss.org/online-analysis/online-analysis//2020/07/apacific-australia-defence-update>.

the threats we face.”⁷² As such, the Morrison government strategically focused on developing “longer-range strike weapons, cyber capabilities, and area denial systems” to “hold adversary forces and infrastructure at risk further from Australia.”⁷³

In response to a “more dangerous and more disorderly” post-COVID-19 world, the Morrison government’s most ambitious measure to pursue offensive capabilities was its costly decision to acquire eight nuclear-powered attack submarines through the new AUKUS security pact.⁷⁴ By combining the most advanced submarine technologies from Britain and the USA, Australia will become one of only seven countries in the world that operate nuclear-powered submarines. As analysts point out, Canberra “is to embark on one of its most significant, expensive and geopolitically consequential military tasks in a century: the push to acquire, operate – and eventually build – nuclear-powered submarines.”⁷⁵ This decision thus marked another unprecedented internal balancing effort by Australia that will transform its roles in the world. As stated by the Australian Submarine Agency, the AUKUS nuclear submarine program “will enhance the ability of our 3 nations to deter aggression and contribute to stability in the Indo-Pacific and globally.”⁷⁶

Amid a rising concern that China could be emboldened by Russia’s invasion of Ukraine, the Albanese government believes that possessing the ability to “deter through denial any adversary’s attempt to project power against Australia” is critical and essential to its national security.⁷⁷ As such, the government has decided to purchase, at the cost of \$3 billion each, up to five Virginia-class nuclear submarines from the USA as a stop-gap measure before Australia can begin the construction of eight AUKUS-class nuclear attack submarines using UK and US technologies.⁷⁸ As such, Australia will possess significantly more attack nuclear submarines than both Britain and France, each currently operating six.

In addition, the Albanese government has been considering whether to purchase B-21 stealth bombers from the USA.⁷⁹ These strategic bombers would give Australia the ability to deliver truly long-range precision strikes, for example, against China’s hypersonic missile sites. According to commentators, this consideration by Australia reveals its ambition to overhaul “the nation’s defense forces to prepare for a possible conflict with China.”⁸⁰

Another milestone in Australia’s pursuit of offensive capabilities concerns the Albanese government’s decision to equip the three Hobart-class air warfare destroyers with Tomahawk cruise missiles. In doing so, Australia will be the third nation in the world, after the USA and the UK, to deploy such weapons.⁸¹

⁷² Mark Beeson, “Indefensible Policies–Defense Strategic Update,” *John Menadue’s Public Policy Journal*, 6 July 2020, <https://johnmenadue.com/mark-beeson-indefensible-policies/>.

⁷³ Australian Department of Defence, “2020 Defence Strategic Update,” p. 27, https://www.defence.gov.au/sites/default/files/2020-11/2020_Defence_Strategic_Update.pdf.

⁷⁴ Daniel Hurst and Julian Borger, “AUKUS: Nuclear Submarines Deal Will Cost Australia Up to \$368bn,” *The Guardian*, 13 March 2023, <https://www.theguardian.com/world/2023/mar/14/aukus-nuclear-submarines-australia-commits-substantial-funds-into-expanding-us-shipbuilding-capacity>.

⁷⁵ *Ibid.*

⁷⁶ Australian Submarine Agency, “Australia’s Nuclear-Powered Submarines,” <https://www.asa.gov.au/aukus/australias-nuclear-powered-submarines#:~:text=Virginia%20Class%20submarines,to%202%20more%20if%20needed>.

⁷⁷ Australian Department of Defence, “Defence Strategic Review 2023,” p. 6.

⁷⁸ Idrees Ali and Phil Stewart, “Exclusive: Australia Expected to Buy Up to Five Virginia Class Submarines as Part of AUKUS,” *Reuters*, 9 March 2023, <https://www.reuters.com/business/aerospace-defense/australia-expected-buy-up-5-virginia-class-submarines-part-aukus-sources-2023-03-08/>.

⁷⁹ Thomas Newdick, “Australia Held Talks about Buying B-21 Raider Stealth Bombers,” *The Warzone*, 23 April 2023, <https://www.twz.com/australia-held-talks-about-buying-b-21-raider-stealth-bombers>.

⁸⁰ Matthew Knott, “Should Australia Spend \$30 Billion on These ‘Very Cool’ Stealth Bombers?” *The Sydney Morning Herald*, 12 December 2022, <https://www.smh.com.au/politics/federal/should-australia-spend-30-billion-on-these-very-cool-stealth-bombers-20221211-p5c5bp.html>.

⁸¹ Amy Remeikis, “Australia to Buy Tomahawk Cruise Missiles in \$1.7bn Spend on Long-Range Defence Capability,” *The Guardian*, 20 August 2023, <https://www.theguardian.com/australia-news/2023/aug/21/australia-to-buy-tomahawk-cruise-missiles-in-17bn-spend-on-long-range-defence-capability>.

Closer Alignment with Allies and Partners

To balance China, Australia's most important external balancing measure concerns its increasingly close alliance with the USA. In March 2009, Rudd, in a meeting with Hillary Clinton, warned the USA that they must be prepared to use force against China if "everything goes wrong." This suggests that Australia was highly motivated to bolster its alliance with the USA to respond to the threat posed by a rising China.

Australia has thus played a crucial role in the US "strategic rebalance" to contain China's ascent. The first significant external balancing effort by Canberra concerned the rotational deployment of US forces to Australia. A 2011 agreement allowed the rotational deployment of 2500 US Marines to Darwin. For Canberra, supporting the US strategic rebalance was crucial for Australia's security amid China's rise.⁸² Australia and the USA also signed the Force Posture Agreement in 2014, committing Canberra to a US Marine Corps presence in Australia as well as air force and naval cooperation.⁸³ Since then, there has been the routine presence of a US rotational force in Darwin. For example, in 2019, 2500 US Marines were stationed there under the Morrison government.⁸⁴

Australia and the USA have also agreed to rotate the deployment of nuclear-capable B-52 strategic bombers to Tindal in the Northern Territory. This move is designed to ensure the alliance's ability to project power, especially over the South China Sea. According to analyses, the rotational deployment of B-52 bombers to Tindal carries far more significance than the rotational deployment of US Marines to Darwin as it is a much stronger deterrent to China.⁸⁵

Another notable effort by Australia concerns the biennial US–Australia "Talisman Saber" military exercise, which has become a major platform for the two militaries to enhance interoperability and involve more countries in the region who share similar threat perceptions. The 2023 Talisman Saber exercise was expanded to include over 34 000 military personnel from 13 nations and included land, sea, land, air, cyber, and space forces.⁸⁶

The most important external balancing effort by Australia concerns the formation of the AUKUS, a new trilateral security partnership between Australia, the USA, and the UK. The naval propulsion information sharing agreement of AUKUS permits the UK and the USA to help Australia build, operate, and support nuclear-powered submarines. As Peter Dutton, Australian Minister of Defense, argued, AUKUS is a "collective effort to ensure the Indo-Pacific remains stable, secure and prosperous, and free from coercion."⁸⁷ AUKUS therefore represents the most audacious external balancing measure by Australia so far and it has been widely characterized as a "game changer" for its security and the regional balance of power.

The threat perception of China has also pushed Australia to enhance security relations with other like-minded countries. Specifically, Australia's military cooperation with Japan and India has been upgraded both in terms of quantity and quality, especially through the

⁸² Nathan Church, "The Australia-United States Defence Alliance," *Parliament of Australia*, 17 August 2011, https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/BriefingBook44p/AustUSDefence.

⁸³ Australian Department of Foreign Affairs and Trade, "AUSMIN Joint Communiqué 2014," 2014, <https://www.dfat.gov.au/geo/united-states-of-america/ausmin/Pages/ausmin-joint-communique-2014>.

⁸⁴ Megan Eckstein, "Marines Reach 2011 Goal of 2500 in Darwin, with Addition of HUMARS Platoon, More to Current Rotation," *USNI News*, 25 July 2019, <https://news.usni.org/2019/07/25/marines-reach-2011-goal-of-2500-in-darwin-with-addition-of-himars-platoon-more-to-current-rotation>.

⁸⁵ Angus Grigg, "US Air Force to Deploy Nuclear-capable B-52 Bombers to Australia as Tension with China Grow," *Australian Broadcasting Corporation*, 31 October 2022, <https://www.abc.net.au/news/2022-10-31/china-tensions-taiwan-us-military-deploy-bombers-to-australia/101585380>.

⁸⁶ Australian Department of Defence, "Talisman Sabre Wraps Up," 8 August 2023, <https://www.defence.gov.au/news-events/news/2023-08-08/talisman-sabre-wraps-up#:~:text=Held%20across%20five%20states%20and,%2C%20air%2C%20cyber%20and%20space>.

⁸⁷ *Ibid.*

Quadrilateral Security Dialogue framework. Most notably, in August 2023, the Reciprocal Access Agreement between Japan and Australia came into force, enabling Australian Air Force pilots to participate in historic joint exercises in Japan. Canberra is also exploring allowing F-35 fighter jets from the Japanese Air Self-Defense Force to participate in joint exercises in Australia. According to reports, their common fear of conflict with China has pushed the two countries to pursue defense cooperation.⁸⁸ “From the Australian point of view, in Japan, we see our future security in the region and the world,” Richard Marles, Minister of Defense, told the media.⁸⁹

Similarly, Australia has been bolstering its defense relations with India to new levels. For example, in 2020, the Mutual Logistics Support Agreement was concluded to enhance military interoperability between Australian and Indian forces. At the 2023 Australia-India 2+2 Ministerial dialogue, which took place in New Delhi, both countries decided that military-to-military cooperation should expand to new areas, such as air-to-air refueling.⁹⁰

Concurrently, Australia has been pursuing closer strategic partnerships with the Association of Southeast Asian Nations (ASEAN) nations, particularly Vietnam and the Philippines, both of whom are involved in maritime disputes with China. An example of the new bilateral relationships between Australia and Vietnam concerns efforts to expand defense and maritime security cooperation. In addition, Australia has recently conducted joint sea and air patrols with the Philippines in the South China Sea.

A Proactive Maritime Defense Posture

The rise of China, which embraces maritime ambitions, has been a key driver motivating Australia to take a proactive maritime defense posture for its national security.

“The biggest changes to our outlook over the period have been the rise of China,” Rudd asserted, before going on to say that “A maritime strategy that reflects Australia’s commitment to assisting our neighbors in these areas in the future” is fundamental to Australian interests.⁹¹ Australia has therefore forcefully responded to China’s claim to the South China Sea, despite not being a claimant state. Australia believes that China’s maritime claim in the South China Sea could jeopardize its national interests in Asia.⁹² Due to this concern, Australia and the Philippines launched a joint naval patrol in 2012 in response to Chinese assertive actions in water claimed by both Beijing and Manila. As mentioned earlier, in 2013, Australia and the USA conducted Talisman Sabre in the South China Sea. In Rudd’s words, “the most worrying fault line ran between China’s territorial claims to the South China Sea and claims by other countries.”⁹³

Australia’s most notable action regarding maritime security in the region concerned the Abbott government’s harsh condemnation of China’s island-building in the South China Sea. Australia warned that China was using coercion to alter the status quo in the East China

⁸⁸ Michael Smith, “Australian Pilots in Historic ‘Top Gun’ Exercises over Japan,” *Financial Review*, 13 September 2023, <https://www.afr.com/world/asia/australian-pilots-in-top-gun-exercises-over-japan-20230912-p5e42e>.

⁸⁹ Mari Yamaguchi, “Japan and Australia Agree to Further Step Up Defense Cooperation Under 2-Month-Old Security Pact,” *AP News*, 19 October 2023, <https://apnews.com/article/japan-australia-defense-china-talks-kihara-fd4f2fa3b84db43553720f288bbcbf1>.

⁹⁰ Australian Minister for Foreign Affairs, “Joint Statement: Second Australia-India 2+2 Ministerial Dialogue, New Delhi,” 20 November 2023, <https://www.foreignminister.gov.au/minister/penny-wong/media-release/joint-statement-second-australia-india-22-ministerial-dialogue-new-delhi>.

⁹¹ Australian Department of Defence, “Defending Australia in the Asia Pacific Century.”

⁹² Daniel Flitton, “Spratly Spat Threatens to Overshadow Summit,” *The Sydney Morning Herald*, 22 July 2011, <https://www.smh.com.au/world/spratly-spat-threatens-to-overshadow-summit-20110721-1hqts.html>.

⁹³ Kevin Rudd, “A Maritime Balkans of the 21st Century?” *Foreign Policy*, 30 January 2013, <https://foreignpolicy.com/2013/01/30/a-maritime-balkans-of-the-21st-century/>.

Sea and the South China Sea.⁹⁴ Turnbull's government issued further warnings that China's expanding military presence in the South China Sea was harmful to Australia's national security and interests.⁹⁵ In 2016, Julie Bishop, Australia's Foreign Minister, urged China to abide by the ruling of the South China Sea Arbitration Tribunal, "which is final and binding on both parties."⁹⁶

Morrison also adopted a robust posture toward the South China Sea issue. For example, Australia's navy participated in multiple bilateral and multilateral military exercises led by the USA in and around the South China Sea. In 2020, Australia declared that China's claims in the South China Sea are invalid and are not consistent with the UN convention on the law of the sea.

Clearly, Australia has designated maritime security as a core national interest. Its primary goal is to preserve a stable, open, and prosperous Indo-Pacific.⁹⁷ Australia's robust posture in the South China Sea is motivated by its threat perception of China's maritime ambitions. According to Bachmann, Australia fears that China will weaponize the ongoing South China Sea dispute to achieve its goal of regional primacy. To Canberra, that would be a fatal setback both economically and strategically.⁹⁸

Furthermore, in light of heightened tension, Australia has recently bolstered its posture toward the Taiwan Strait. For Canberra, its national security will be greatly impacted by any contingencies in the Taiwan Straits. According to Defense Minister Peter Dutton, it was "inconceivable" that Australia would not support the US military for a Taiwan contingency, in the event of a Taiwan emergence.⁹⁹ As I-wei Jennifer Chang observes, "Australia's own security concerns vis-à-vis China have driven its growing engagement on Taiwan Strait security."¹⁰⁰ Australia's concerns over China's ambition in the Taiwan Strait have further escalated since Russia invaded Ukraine. According to Richard McGregor, "Australia won't have the luxury of keeping its head down on Taiwan indefinitely."¹⁰¹

Resisting Chinese Interference and Infiltration

Canberra has also sought to counterbalance alleged Chinese efforts to undermine its political system through influence and infiltration campaigns.

The Rudd government was the first to show concerns over investments by Chinese state-owned enterprises that aimed to influence Australia's domestic politics. As such, Australia's balancing efforts began to incorporate a domestic element that seeks to limit China's systematic attempts to interfere in its political system.

⁹⁴ James Massola and John Garnaut, "Australia 'Deplores' Unilateral Action in South China Sea: Tony Abbott," *The Sydney Morning Herald*, 29 June 2015, <https://www.smh.com.au/politics/federal/australia-deplores-unilateral-action-in-south-china-sea-tony-abbott-20150629-gi0lxj.html>.

⁹⁵ Rob Taylor, "Australia Prime Minister Malcolm Turnbull Raps China on Island Building," *The Wall Street Journal*, 22 September 2015, <https://www.wsj.com/articles/australias-new-leader-raps-china-on-island-building-144289944>.

⁹⁶ "China Has No Legal Basis to Claim Historic Rights in South China Sea, International Court Finds," *Australian Broadcasting Corporation*, 12 July 2016, <https://www.abc.net.au/news/2016-07-12/china-no-legal-basis-south-china-sea-tribunal-finds/7622738>.

⁹⁷ Elias Visontay, "Australia Declares 'There Is No Legal Basis' to Beijing's Claims in the South China Sea," *The Guardian*, 25 July 2020, <https://www.theguardian.com/australia-news/2020/jul/25/australia-declares-there-is-no-legal-basis-to-beijings-claims-in-south-china-sea>.

⁹⁸ Sascha-Dominik Bachmann, "Conflict in The South China Sea and Why It Matters for Australia," *Australian Institute of International Affairs*, 27 July 2022, <https://www.internationalaffairs.org.au/australianoutlook/conflict-in-the-south-china-sea-and-why-it-matters-for-australia/>.

⁹⁹ Benjamin Herscovitch, "Australia's Shifting Statements on Taiwan," *Beijing to Canberra and Back*, 4 August 2022, <https://beijing2canberra.substack.com/p/australias-shifting-statements-on>.

¹⁰⁰ I-wei Jennifer Chang, "Australia's Increased Engagement on Taiwan Strait Security," *Global Taiwan Institute*, 20 October 2021, <https://globaltaiwan.org/2021/10/australias-increased-engagement-on-taiwan-strait-security/>.

¹⁰¹ Richard McGregor, "Australia's Caution on Taiwan May Not Last," *Brookings Institution*, 29 March 2023, <https://www.brookings.edu/articles/australias-caution-on-taiwan-may-not-last/#:~:text=Defense%20Minister%20Peter%20Dutton%2C%20for,which%20were%20supported%20by%20Morrison.>

Australia's domestic balancing effort escalated under Turnbull, as shown by his statement "Australian people stand up and defend values and way of life." He claimed that the statement was "an assertion of sovereignty" against foreign infiltration and interference.¹⁰²

Due to rising concerns over Chinese interference, in 2018, the Australian Parliament passed the *National Security Legislation Amendment (Espionage and Foreign Interference) Act*. As Turnbull explained, the law was designed to limit Chinese interference in Australian politics. For example, it sought to "oust" foreign interference that was directed toward Australian academics, politicians, and community leaders.¹⁰³ David Brophy notes that Australia is experiencing a China Panic, due to its fears over Chinese influence, interference, and espionage.¹⁰⁴

Under Morrison, Australia's concerns about China's infiltration operations continued. In November 2019, he claimed that the Chinese government was actively trying to inject agents into Australian politics and this was "deeply disturbing and troubling."¹⁰⁵ He promised that his government was well positioned to counter these threats.

In December 2023, a Melbourne court convicted a businessman and Australian citizen, Di Sahn Deong, for covertly working for the Chinese government to influence Australia's democratic political processes. He was the first person to be convicted under the 2018 act.¹⁰⁶

Because of a rising concern for Chinese interference, Australian Foreign Minister Penny Wong stated that the country's foreign policy "must be an accurate and authentic reflection of our values and interests."¹⁰⁷ As a result, Australia has stepped up its efforts in the last decade to counterbalance and limit China's attempts to influence its domestic politics and values. In this regard, Australia has taken more drastic measures than even the USA, which also exhibits similar concerns.

Maximizing Profits: Cooperation in the Context of Threat Certainty

While pursuing robust and increasingly hard balancing against China, Australia appreciates that reaping gains from China's ascent can enhance its aggregate power. As a trading state, Australia is particularly motivated to maintain strong economic ties with China. As shown in Table 1, trade has consistently constituted over 40% of Australia's GDP.

To enhance Australia's aggregate power and hence its ability to balance external threats, it needs to seek gains from economic relations with other states, including China. Rudd well understood that long-term balancing requires healthy economic development. As he asserted, "Defense planning cannot take place in a resource-free environment," otherwise, "over time, it will also be constrained by a range of factors that impact the affordability of defense spending."¹⁰⁸ With this in mind, Rudd's government made efforts to maintain close economic ties with China. As shown in Table 2, under Rudd, Australia's exports to China

¹⁰² "The Australian People Stand Up': PM Defiant over Chinese Political Interference," *SBS News*, 9 December 2017, <https://www.sbs.com.au/news/article/the-australian-people-stand-up-pm-defiant-over-chinese-political-interference/0yeq88lrd>.

¹⁰³ Kirsty Needham, "Australia's Foreign Interference Laws Designed for China-Former PM Turnbull," *Reuters*, 21 February 2023, <https://www.reuters.com/world/asia-pacific/australias-foreign-interference-laws-designed-china-former-pm-turnbull-2023-02-21/>.

¹⁰⁴ David Brophy, *China Panic: Australia's Alternative to Paranoia and Pandering* (Melbourne: La Trobe University Press, 2021).

¹⁰⁵ Anthony Galloway, "Chinese Foreign Interference Allegations 'Deeply Disturbing': Morrison," *The Age*, 25 November 2019, <https://www.theage.com.au/politics/federal/worse-than-i-thought-liberal-mp-says-chinese-interference-a-serious-threat-20191125-p53dpu.html>.

¹⁰⁶ Angus Watson and Nectar Gan, "Australian Court Convicts Businessman of Planning Political Interference for China in Legal First," *CNN*, 20 December 2023, <https://edition.cnn.com/2023/12/20/australia/australia-businessman-convicted-foreign-influence-china-intl-hnk/index.html>.

¹⁰⁷ Australian Minister for Foreign Affairs, "National Press Club Address, Australian Interests in a Regional Balance of Power," 17 April 2023, <https://www.foreignminister.gov.au/minister/penny-wong/speech/national-press-club-address-australian-interests-regional-balance-power>.

¹⁰⁸ Australian Department of Defence, "Defending Australia in the Asia Pacific Century," p. 26.

Table 1. Australia's Trade-to-GDP Ratio from 2009 to 2022

Year	Trade (% of GDP)
31 December 2009	45.7468
31 December 2010	40.5203
31 December 2011	41.8426
31 December 2012	43.1667
31 December 2013	41.2749
31 December 2014	42.4717
31 December 2015	41.6231
31 December 2016	40.8228
31 December 2017	41.9513
31 December 2018	43.3895
31 December 2019	45.8267
31 December 2020	44.2334
31 December 2021	39.87
31 December 2022	45.7539

Source: Macrotrends, <https://www.macrotrends.net/countries/AUS/australia/trade-gdp-ratio#:~:text=Trade%20is%20the%20sum%20of,a%204.36%25%20decline%20from%202020.>

Table 2. Australia's Two-way Trade with China and the USA from 2009 to 2021

Year	China's Share of Australia's Total Imports (%)	China's Share of Australia's Total Exports (%)	The US Share of Australia's Total Imports (%)	The US Share of Australia's Total Exports (%)
2009	17.64	21.7	11.27	4.85
2010	18.84	25.34	11.19	3.97
2011	18.55	27.39	11.44	3.65
2012	18.36	29.6	11.73	3.71
2013	19.3	34.63	10.25	3.02
2014	20.59	33.86	10.61	4.14
2015	23.13	32.49	11.27	5.31
2016	23.36	31.64	11.46	4.62
2017	21.88	29.7	10.34	3.66
2018	24.23	29.13	10.39	3.53
2019	25.48	32.89	11.78	3.63
2020	28.64	37.47	11.8	5.19
2021	27.85	34.15	10.17	3.22

Source: World Integrated Trade Solution, <https://wits.worldbank.org/CountryProfile/en/AUS>.

constituted 21.7% and 25.34% of total Australian exports in 2009 and 2010, respectively, which were higher than in the previous 10 years despite his ambitious balancing measures against China.

Former Prime Minister Julia Gillard's goal of reaping profit from China's rise was also clear. As the 2012 Australia in the Asian Century White Paper states, the aim was "to ensure Australia will emerge stronger over the decades ahead, by taking advantage of the opportunities offered by the Asian century."¹⁰⁹ Gillard therefore promoted bilateral relationships with China to the level of "comprehensive strategic partnership" during her visit to Beijing in April 2013. As a result, under her tenure, Australia's exports to China significantly increased. In fact, exports to China reached a record high of 34.63% of total

¹⁰⁹ Parliament of Australia, "Australia in the Asian Century White Paper: Australia's Roadmap for Navigating the Asian Century," 28 October 2012, <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:%22media/pressrel/2010380%22.>

Australian exports in 2013. For Tony Kevin, “Gillard chalks up a win in China though reaping economic prosperity from China’s rise.”¹¹⁰

Tony Abbott’s “fear and greed” China policy best captures Canberra’s dual-track strategy despite his efforts to strengthen security ties with the USA and Japan to counterbalance Beijing and his strong condemnation of China’s island-building in the South China Sea. Indeed, Abbott coined the motto specifically for Australia’s China policy.¹¹¹ He was adamant that economic cooperation with China was vital to advance Australia’s aggregate power. The most important measure by his government concerned the November 2014 China–Australia Free Trade Agreement, which was hailed by Abbott as a “history-making agreement” that would deliver enormous benefits to Australia.¹¹² The Abbott government thus opened a new era of Australia’s dense economic cooperation with China.

Abbott’s “fear and greed” dual-track China policy was absorbed into Malcolm Turnbull’s doctrine that China is Australia’s “frenemy,” which refers to China as a friend in the economic realm but an enemy in the security realm.¹¹³ To strengthen Australia’s national power, Turnbull opted to pursue economic cooperation with China through a pragmatic policy.¹¹⁴ For his first official visit to China in April 2016, he brought with him a 1000-member business delegation. In a speech in Shanghai, he hailed the China–Australia free trade agreement as “transformative.” As he observed, “The early export gains have been extraordinary. Beef and dairy exporters have captured the headlines, but they are closely followed by the cherry farmers of Tasmania, the cray fishermen of Geraldton, and wine producers across the country.”¹¹⁵ Turnbull’s enthusiasm for economic cooperation with China paralleled his broader balancing measures against China, which included the unprecedented 2018 anti-foreign inference laws and his statement that Australia must “stand up” against China.

Amid a “poorer” post-COVID world, which saw the deterioration of relations with China, the Morrison government understood that mending ties with its largest trading partner was vital to boosting the Australian economy. As such, despite his historic decision to form the AUKUS pact and acquire nuclear-powered submarines for Australia, Morrison worked to restore economic cooperation with China after Beijing imposed trade sanctions in 2020 to “punish” his government’s call for an international investigation into the origins of COVID-19. In his written response to *Reuters*, Morrison observed that Australian exports of high-quality energy, resources, agricultural goods, and increasingly services enhance its economic prosperity. “It is a mutually beneficial relationship,” he explained.¹¹⁶ According to Jane Golley, a China expert at the Australian National University, Canberra’s desire to continue to seek cooperation with China amid political turbulence stems from the fact that

¹¹⁰ Tony Kevin, “Gillard Chalks Up a Win in China,” *Eureka Street*, 11 April 2013, <https://www.eurekastreet.com.au/article/gillard-chalks-up-a-win-in-china>.

¹¹¹ John Garnaut, “‘Fear and Greed’ Drives Australia’s China Policy, Tony Abbott Tells Merkel,” *The Sydney Morning Herald*, 16 April 2015, <https://www.smh.com.au/politics/federal/fear-and-greed-drive-australias-china-policy-tony-abbott-tells-angela-merkel-20150416-1mmdry.html>.

¹¹² Dan Conifer, “Australia and China Sign ‘History Making’ Free Trade Agreement after a Decade of Negotiations,” *Australian Broadcasting Corporation*, 17 June 2014, <https://www.abc.net.au/news/2015-06-17/australia-and-china-sign-free-trade-agreement/6552940>.

¹¹³ Angus Grigg and Lisa Murray, “Turnbull Calls China a ‘Frenemy’, Toughens Stand towards Beijing,” *Australian Financial Review*, 16 June 2017, <https://www.afr.com/policy/foreign-affairs/malcolm-turnbull-calls-china-a-frenemy-toughens-stance-towards-beijing-20170615-gwrnsp>.

¹¹⁴ Euan Graham, “Malcolm Turnbull Is Taking a Pragmatic Regional Approach to China,” *The Lowy Institute*, 23 June 2017, <https://www.loyyinstitute.org/publications/malcolm-turnbull-taking-pragmatic-regional-approach-china>.

¹¹⁵ Malcolm Turnbull, “Prime Minister Malcolm Turnbull at the Australia Week in China, Gala Lunch,” 14 April 2016, <https://www.malcolmturnbull.com.au/media/australia-week-in-china-gala-lunch>.

¹¹⁶ Catherine Tai, “Australia Faces Down China in High-Stakes Strategy,” *Reuters*, 4 September 2020, <https://www.reuters.com/investigates/special-report/australia-china-relations/>.

China is an irreplaceable export destination for Australia.¹¹⁷ Exports to China constituted 38% of total exports in 2020, while the US share was only 12%. Australia enjoys a \$51 billion surplus through its trade with China.¹¹⁸

To reverse export loss due to Chinese economic sanctions, the Albanese government has prioritized the resumption of trade relations with China. This effort is in parallel with his government's decision to purchase the US Virginia-class nuclear attack submarine as a stop-gap measure before commencing construction of the AUKUS-class submarine. Australia has, in fact, pursued full-throttle diplomacy toward Beijing to end the trade sanctions, which have negatively affected Australia's economic prosperity. For example, Albanese met with Chinese President Xi Jinping at the 2022 G20 summit in Bali, for the first time between the two countries' top leaders in nearly 4 years. A month later, Penny Wong, the Australian Foreign Minister, visited China with the primary goal of removing trade impediments.¹¹⁹ She was followed, in May 2023, by Trade Minister Don Farrell, who went to Beijing with the same goal of restoring the trade ties with China.¹²⁰

In a media interview, Albanese was asked what he envisaged a stabilized relationship with China would look like. He replied, "It's one where there are no impediments to trade."¹²¹ In November 2023, Albanese became the first Australian Prime Minister to visit China since 2016. The visit successfully resulted in China lifting economic sanctions on Australia.¹²² During the visit, Albanese led a delegation to the China International Import Expo in Shanghai, where he stated, "It's an important international expo and its objective is to support jobs in Australia." He went on to say that "there are some 250 Australian companies here, many of whom have already benefited from the changes that have occurred in the trading relationship in recent times."¹²³

Minimizing Vulnerability: Threat Certainty and Geoeconomics

While Australia has been seeking to maximize its gains through trade with China, it is also becoming more concerned about how cooperation may harm its long-term security. After all, Australia now sees China as an unambiguous threat to its national security and interests. Therefore, Australia has also been pursuing a "de-risking" strategy to limit harm to its national security while seeking gains from cooperation with China.

To this end, Australia has maintained a high level of concern over infrastructure cooperation with China to reduce the negative security impact. In 2012, Australia blocked Huawei from providing equipment to the Australian National Broadband Network project.¹²⁴ In July 2018, Australia passed the Security of Critical Infrastructure Act (SOCIA), which

¹¹⁷ Frances Mao, "How Reliant Is Australia on China?" *BBC News*, 17 June 2020, <https://www.bbc.com/news/world-australia-52915879>.

¹¹⁸ Tai, "Australia Faces Down China in High-Stakes Strategy."

¹¹⁹ Andrew Tillett and Michael Smith, "Wong Aims to End Trade Bans in Breakthrough Visit," *Australian Financial Review*, 19 December 2022, <https://www.afr.com/politics/federal/penny-wong-to-visit-beijing-after-china-ends-freeze-20221219-p5c7ck>.

¹²⁰ Anthony Galloway, "Positive Momentum from Beijing But No Trade Concessions after Farrell's Trip," *The Sydney Morning Herald*, 13 May 2023, <https://www.smh.com.au/world/asia/positive-momentum-from-beijing-but-no-trade-concessions-after-farrell-s-trip-20230513-p5d841.html>.

¹²¹ Andrew Tillett and Ronald Mizen, "PM Wants a 'No Surprise' Relationship with China," *Australian Financial Review*, 30 October 2023, <https://www.afr.com/politics/federal/pm-wants-a-no-surprises-relationship-with-china-20231029-p5eftv>.

¹²² John Quiggin, "Australia and China Turn a New Leaf in Economic Relations," *East Asia Forum*, 23 December 2023, <https://eastasiaforum.org/2023/12/23/australia-and-china-turn-a-new-leaf-in-economic-relations/>.

¹²³ Prime Minister of Australia, "Press Conference," 5 November 2023, <https://www.pm.gov.au/media/press-conference-3>.

¹²⁴ Maggie Lu, "Australia Blocks China's Huawei from Broadband Tender," *Reuters*, 26 March 2012, [https://www.reuters.com/article/idUSBRE82P0GA/#:~:text=CANBERRA%20\(Reuters\)%20%2D%20Australia%20has,concerns%2C%20Huawei%20said%20on%20Monday](https://www.reuters.com/article/idUSBRE82P0GA/#:~:text=CANBERRA%20(Reuters)%20%2D%20Australia%20has,concerns%2C%20Huawei%20said%20on%20Monday).

established tight regulation and protection of critical infrastructure posed by foreign investment.¹²⁵ While not specifically referencing China, the target was clear. One month after the SOCI took effect, Turnbull made the world's first decision to ban Huawei and ZTE from the construction of Australia's 5G network.¹²⁶ Morrison was also conscious of the need to safeguard critical infrastructure assets due to Chinese cyberattacks on Australian networks. Under his government, the Security Legislation Amendment (Critical Infrastructure Protection) Act 2022 came into effect on 2 April 2022.¹²⁷ Subsequently, the Albanese government has increased the list of critical infrastructure assets from 81 to 168.¹²⁸

In short, SOCI has been comprehensively implemented in response to China's rising economic presence in Australia. Analysts suggest that, in 2010, even before Australia officially banned Huawei, it had already concluded that cooperation with Huawei would jeopardize its national security. Turnbull's decision to ban Huawei from the building of Australia's 5G network was primarily motivated by long-term security concerns. One commentator observed that Morrison was a "fellow traveler" who followed in Turnbull's footsteps to protect Australia's national security while cooperating with China.¹²⁹ Australia's practice in this regard is consistent with the logic of the dual-track approach, which argues that states seek to limit cooperation in domains that have a negative long-term security impact on them.

While Australia is blocking Chinese investment in Australia's critical infrastructure, it is not seeking to decouple itself from China. In fact, three separate studies by the Australian government concluded that economic decoupling is impossible.¹³⁰ Australia's recent approval of a US\$270 million Chinese investment in an Australian nickel company offers insight into its cooperation strategy with China. As observed by James Laurenceson, director of the Australia-China Relations Institute, there is no blanket ban on Chinese investments if they are not related to sensitive assets.¹³¹

Conclusion

Australia's post-2010 China policy is one of a dual-track approach in response to power shifts. Despite a hard balancing posture against China, Australia has not dampened its desire to seek cooperation with China. Australia's China policy is therefore not one of balancing, as recently portrayed by some. According to Waltz's balancing insight, states in security rivalry not only balance each other but also seek to decouple economically. The current China policy of the USA is consistent with Waltz's insight. Australia, however, has been attempting to *boost* economic ties with China, which is also identified as its chief national security threat. This article therefore proposes an alternative dual-track approach to explain

¹²⁵ Australian Department of Home Affairs, "Security of Critical Infrastructure Act 2018 (SOCI)," <https://www.cisc.gov.au/legislation-regulation-and-compliance/soci-act-2018#:~:text=The%20SOCI%20Act%20includes%20the,depending%20on%20their%20asset%20class.>

¹²⁶ Tom Uren and Danielle Cave, "Why Australia Banned Huawei from Its 5G Telecoms Network," *ASPI*, 30 August 2018, <https://www.aspi.org.au/opinion/why-australia-banned-huawei-its-5g-telecoms-network>.

¹²⁷ Australian Department of Home Affairs, "Security Legislation Amendment (Critical Infrastructure Protection) Act 2022," <https://www.homeaffairs.gov.au/reports-and-publications/submissions-and-discussion-papers/slacip-bill-2022>.

¹²⁸ Australian Government, "Protecting Australia's Critical Infrastructure Assets," 8 September 2023, <https://minister.homeaffairs.gov.au/ClareONeil/Pages/protecting-australias-critical-infrastructure-assets.aspx>.

¹²⁹ Peter Hatcher, "Huawei? No Way! Why Australia Banned the World's Biggest Telecoms Firm," *The Sydney Morning Herald*, 21 May 2021, <https://www.smh.com.au/national/huawei-no-way-why-australia-banned-the-world-s-biggest-telecoms-firm-20210503-p57oc9.html>.

¹³⁰ Kandy Wong, "Australia Concludes China Decoupling 'Impossible' after Carrying Out Series of Classified Studies," *South China Morning Post*, 5 October 2023, <https://www.scmp.com/economy/china-economy/article/3236860/australia-concluded-china-decoupling-impossible-after-series-classified-studies#>.

¹³¹ Su-Lin Tan, "No Blanket Ban on Chinese Investments in Australia as Bilateral Tensions Ease," *South China Morning Post*, 4 July 2023, <https://www.scmp.com/week-asia/economics/article/3226554/no-blanket-ban-chinese-investments-australia-bilateral-tensions-ease>.

Australia's China policy. Indeed, this approach can best make sense of the "fear and greed" motto of Australia's China policy. No Australian government has deviated from this motto as it is buttressed by a strong and coherent strategic logic. The dual-track strategy seeks to maximize Australia's security while simultaneously maximizing its wealth and power. As wealth and power buttress a state's capacity to provide its security, simultaneous hard balancing and cooperation with China serve the common goal of advancing Australian security in the context of power shifts. As such, the dual-track strategy is a rational policy choice for Canberra.

In addition, the dual-track strategy improves Australia's maneuverability vs. China through mutual dependence. By maintaining close economic ties with China, Australia has made it harder for Beijing to constrain Canberra's China policy. The setback for Beijing's economic sanctions on Australia, which were implemented after Canberra's call for investigations into the origins of the COVID-19 pandemic and its decision to form the AUKUS alliance, was fundamentally due to the mutual vulnerability generated by economic interdependence between the two countries.¹³² China's reliance on Australia's raw materials, such as coal and iron ore, means that any Chinese sanctions would exert costs on both parties, not just Australia. As such, China's economic sanctions, which included restricting the import of Australian coal, triggered unintended consequences. Indeed, the ban caused widespread power cuts throughout China in late 2020. As one report observed, "Factories across China are falling silent and office workers are being forced to climb the stairs of high-rise buildings as a ban on Australian coal worsens a power shortage that hits everything from street lights to lifts."¹³³ China eventually removed its economic sanctions on Australia without Canberra making any substantial changes to its China policy. In fact, the Albanese government, which successfully prodded Beijing to end the sanctions, simultaneously beefed up Australia's balancing efforts against China. In a March 2023 arrangement, Canberra and Washington agreed that Australia could purchase up to five Virginia-class nuclear attack submarines as a stop-gap measure for Australia's deterrence before it can build the AUKUS-class nuclear submarine under a trilateral agreement with the USA and UK. Beijing did nothing to retaliate against this decision of the Albanese government. The unintended consequences of the economic sanctions should have alerted Beijing to the fact that, due to mutual dependence, it can do little to shape Australia's China policy.

Due to its strategic logic, the dual-track approach has also been adopted by other middle powers in the region, such as Japan. While possessing greater aggregate capabilities than Australia, Japan is now widely considered a middle power.¹³⁴ After all, Japan's 2023 GDP is only US\$4.2 trillion, less than a quarter of China's US\$18 trillion.¹³⁵ Due to the large power imbalance, the relative gains issue does not affect Japan's motive to reap economic gains from cooperation with China even after the establishment of threat certainty. Therefore, while Japan ended its hedging policy toward China after the 2012–13 Sino-Japanese crisis over the Senkaku Islands, it did not embrace pure balancing. Instead, starting with the second Shinzo Abe administration, Tokyo has pursued a dual-track approach to its China policy. While Japan has significantly modified its post-World War II security posture through unprecedented balancing measures, such as the pursuit of offensive military capabilities, the removal of constitutional constraints on the right to collective defense, and the increase of defense spending to 2% of the GDP, Tokyo has nonetheless maintained close economic

¹³² David Uren, "Why China's Coercion of Australia Failed," *Australia Strategic Policy Institute*, 23 April 2023, <https://www.aspistrategist.org.au/why-chinas-coercion-of-australia-failed/>.

¹³³ Sun Yu, "Politics Come First as Ban on Australian Coal Worsens China Power Cuts," *The Financial Times*, 21 December 2020, <https://www.ft.com/content/e83fffeb-3ef2-4b67-8989-6d17f153d8d4>.

¹³⁴ Thomas Wilkins, "Middle Power Hedging in the Era of Security/Economic Disconnect: Australia, Japan, and the 'Special Strategic Partnership,'" *International Relations of the Asia Pacific*, Vol. 23, No. 1 (2021), pp. 93–127.

¹³⁵ World Bank, "GDP (Current US\$)," <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

ties with China to reap absolute gains. As stated by Abe himself, “Japan benefits a great deal by making lots of exports to China as well as making investments in China.”¹³⁶ As a recent study points out, “Japan is maximizing its profits through cooperation and interdependence” with China.¹³⁷ At the same time, Japan has also implemented geoeconomic measures to restrict its economic cooperation with China, primarily by limiting the export of advanced technologies, such as semiconductor manufacturing equipment.¹³⁸

This suggests that the dual-track approach represents a new pattern of states’ response to threatening rising powers after the establishment of threat certainty. It is distinctive from both the balancing approach and the hedging approach. Fundamentally, the dual-track approach rests on the economic interdependence that defines world politics today. Countries, especially trading states, recognize that while they need to balance those that threaten them, forfeiting gains from economic cooperation is also not an option. Middle powers, in particular, are not inhibited by the relative gains issue in their cooperation with a threatening great power due to the power imbalance between them. They only care about the absolute gains from economic cooperation with this great power. As such, due to their significant military capabilities, they choose to pursue simultaneous balancing and cooperation toward a threatening great power. The aim is to maximize both their national security and power through parallel strategies.

Donald Trump’s second term is likely to solidify these middle powers’ dual-track China policies. On the one hand, his administration sees China as the principal threat to the USA and a more hardline China policy by Washington will boost its middle power allies’ confidence and resolve to pursue hard balancing against Beijing. While many have speculated whether Trump may weaken the US alliance system by pursuing a transactional approach toward intra-alliance relations, little evidence from his first term showed that Washington’s alliances, especially the alliances with Japan and Australia, were substantially harmed.¹³⁹ While Trump will continue to demand the allies to contribute more toward burden sharing, his China policy should serve to encourage middle power allies’ own hard balancing efforts.

On the other hand, Trump’s threat of imposing tariffs on all imports, which include those from allied countries, should also motivate the middle power allies of the USA to rely further on China, which is their largest trading partner, as a key source of their economic growth and well-being.¹⁴⁰ These allies, such as Australia and Japan, are classic trading states that depend heavily on the global market for their economic advancement. As such, they are wary of the effects of Trump’s tariff threats on their economic interests. Australian economist Richard Yetsenga said that as a small, open economy, Australia has much to lose from a tariff war that would disrupt trade around the world.¹⁴¹ Arthur Sinodinos, Australia’s former ambassador to the USA, also warned that Trump’s tariff threats constitute a “clear

¹³⁶ Lally Weymouth, “An Interview with Japanese Prime Minister Shinzo Abe,” *The Washington Post*, 7 November 2014, https://www.washingtonpost.com/opinions/interview-with-japanese-prime-minister-shinzo-abe/2014/11/07/47c26bc6-6686-11e4-bb14-4cfea1e742d5_story.html.

¹³⁷ Lluç Vidal Lopez, Angels Pelegrin Sole, and Ivan Gonzalez-Pujol, “Diversifying Economic Risks: Japan’s Economic Hedging toward China,” *International Relations of the Asia-Pacific*, Vol. 24, No. 2 (2024), p. 316.

¹³⁸ “Japan Curb Chip Export to China Will Take Effect in July,” *Nikkei Asia*, 23 May 2023, <https://asia.nikkei.com/Business/Tech/Semiconductors/Japan-chip-export-curb-to-China-will-take-effect-in-July>.

¹³⁹ Alex Russell, “Donald Trump’s Foreign Policy Plan: Embracing Unpredictability,” *The Guardian*, 28 October 2024, <https://www.ft.com/content/f18588c8-a122-4dc2-b095-0f75aeb748bf>.

¹⁴⁰ Shannon Pettypiece and Lawrence Hurley, “Trump’s Authority to Impose Sweeping Tariffs to Be Put to the Test,” *NBC News*, 16 November 2024, <https://www.nbcnews.com/politics/economics/trumps-authority-impose-sweeping-tariffs-put-test-rcna179848>.

¹⁴¹ Shane Wright, “Australia Wobbles as Trump Tariff Threat Upends Global Economy,” *The Sydney Morning Herald*, 26 November 2024, <https://www.smh.com.au/politics/federal/australia-wobbles-as-trump-tariff-threat-upends-global-economy-20241126-p5ktdz.html>.

and present danger” to Australian economic interests.¹⁴² In this context, these US allies should be further motivated to maintain close economic ties with China to ensure their economic welfare.

Hence, the second Trump administration may lead the middle power allies of the USA to consolidate their dual-track China policies. The only scenario that could reverse this course is that while the Trump administration pursues further economic decoupling from China, it will also force US allies to adopt a similar strategy. However, there is little evidence so far to indicate that the Trump administration will seek to compel the allies to pursue a US-style economic decoupling from China.

Conflict of interest statement. None declared.

¹⁴² Karen Middleton, “Trump’s Tariff Threats a ‘Clear and Present Danger’ Danger to Australia, Arthur Sinodinos Warns,” *The Guardian*, 8 November 2024, <https://www.theguardian.com/australia-news/2024/nov/09/us-election-donald-trump-tariffs-australian-economy-impact-arthur-sinodinos>.