

The good, the bad and the ugly: Australian defence and strategic policy in an uncertain future

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This is the final piece of a four-part UTS:ACRI Analysis series that examines an interlinked set of questions for Australian defence and strategic policy stemming from the Defence Strategic Review (DSR) released in April 2023. The series began by providing an assessment of the consistency between the stated concept of deterrence at the heart of the DSR and the capability acquisitions (including the AUKUS nuclear-powered submarines) that are flagged to implement that strategy. Part 2 examined the broader question of how the defence concept and capabilities detailed in the DSR are aligned with that of Australia's alliance partner, the US. Part 3 provided an assessment of whether Australian strategy and capabilities are sufficiently tailored to meet the challenge from the People's Republic of China's (PRC) current strategic posture and military capabilities. Part 4 concludes the series with a discussion of how Australia may overcome the political, strategic and capability obstacles the preceding analysis has identified.

Key takeaways

- This UTS:ACRI Analysis series has demonstrated that the Defence Strategic Review has adopted a hybrid strategic posture that seeks to achieve the Defence of Australia objectives of defending the continent by denying a potential hostile power access to our northern approaches, simultaneous with a commitment to develop 'long-range strike' capabilities to contribute to allied efforts to shaping the Sino-US balance beyond Southeast Asia. This final analysis finds that this is inadequate to meet the challenge of three near-to-medium term scenarios for Sino-US competition and/or conflict: normalisation of Sino-US 'strategic competition'; retrenching America, resilient People's Republic of China (PRC); and retrenching America, retrenching PRC.
- Under the first scenario the constraints of the political economy of Sino-US 'strategic competition' – defined by Sino-US efforts to reduce mutual dependencies and undermine each other's strategic and economic dynamism – will exacerbate tensions in Australia's calculations regarding the balance of its economic and strategic/security interests vis-à-vis the Sino-US contest.
- A security environment defined by the retrenchment of the US under a second Trump administration and a resilient PRC, in contrast, would see increased pressure on allies in Asia to accept most of the burden for their defence and an American predilection to strike 'deals' with the PRC over major flashpoints such as Taiwan and the South China Sea. For Australia, its high level of strategic dependency on the US would be leveraged by a transactional president without concern for Australian interests at a time of continued PRC assertion in East Asia and the western Pacific.

- Simultaneous American and PRC retrenchment however would present Australia with a worst-case outcome as it would remove the central pillar of Australian defence and strategic policy (US security alliance), while PRC stagnation would weaken the Australian economy and potentially compel the PRC to jump through a closing window of opportunity to establish regional spheres of influence.

Introduction

The Defence Strategic Review (DSR) identified five core interlinked tasks for the Australian Defence Force (ADF). It must have the capacity to:¹

- (1) ‘defend Australia and our immediate region’;
- (2) ‘deter through denial any adversary’s attempt to project power against Australia through our northern approaches’;
- (3) ‘protect Australia’s economic connection to our region and the world’;
- (4) ‘contribute with our partners to the collective security of the Indo-Pacific’; and
- (5) ‘contribute with our partners to the maintenance of the global rules-based order’.

This partly resembles what defence analyst Hugh White terms the classic ‘concentric circles’ model of defining Australia’s strategic interests that successive Defence white papers since 2000 have employed.² In his 2021 book, *How to Defend Australia*, White identifies four specific and interlinked ‘permanent strategic interests’ for Australia: defence of the continent; denial of potential adversary access to the ‘inner arc of islands to our north’; ensuring a hostile power does not control maritime Southeast Asia; and contributing to a stable balance in the wider Asian region.³ Significantly, in White’s schema, this is a mutually supporting hierarchy in which each interest serves to support ‘the one above it on the list’.⁴ Thus, the fourth interest in a stable balance of power in Asia ‘supports the third interest in preventing major-power intrusions into Southeast Asia’, which ‘supports our second interest in preventing potentially hostile powers from finding bases in our immediate neighbourhood.’ That in turn supports the first interest in ‘maintaining a favourable military balance in Australia’s direct air and sea approaches’.⁵

The DSR’s hierarchy, however, does not have such specificity beyond the first two listed objectives of defending ‘Australia and our immediate region’ and ‘deterring through denial any adversary’s attempt to project power against Australia through our northern approaches’. Indeed, the fourth and fifth objectives are not only vague but expand Australia’s strategic interests to include the amorphous concepts of the ‘Indo-Pacific’ and the ‘global rules-based order’.

This expansion of Australia’s strategic horizon is counterproductive: the future of the balance of power in the ‘Indo-Pacific’ will in fact be decided by Sino-US contestation *within* East Asia and the western Pacific. This is because, as Part 3 of this UTS:ACRI Analysis series demonstrated, this region will remain the centre of gravity of the People’s Republic of China’s (PRC) military posture so long as the Taiwan issue remains unresolved. Put simply, Sino-US relations are what will decisively shape order in the ‘Indo-Pacific’ and will ultimately determine whether the PRC has the intent and capacity to directly threaten Australia.

The challenge, then, is how best to position Australian strategy and capabilities to best meet this risk. As we have seen over the course of this series so far, the response laid out to this challenge in the DSR has been to

1 Australian Government Department of Defence, *National Defence: Defence Strategic Review, 2023*, p. 6 <<https://www.defence.gov.au/about/reviews-inquiries/defence-strategic-review>>.

2 Hugh White, *How to Defend Australia* (Carlton: Black Inc, 2021), p. 71.

3 *Ibid.*, at pp. 72–73.

4 *Ibid.*, at p. 74.

5 *Ibid.*

adopt a hybrid strategic posture that seeks to achieve the Defence of Australia (DoA) objectives of defending the continent by denying a potential hostile power access to our northern approaches, simultaneous with a commitment to develop ‘long-range strike’ capabilities to contribute to allied efforts shaping the Sino-US balance beyond Southeast Asia. This hybridity has been expressed in capability terms with emphases on anti-access/area denial (A2/AD) platforms and the future nuclear-powered submarines (SSNs) envisaged under AUKUS, backed by deepening entwinement with American strategy and capabilities.

But is this sufficient to meet the challenges of the coming decades? To examine this question further, this analysis will assess how the strategy and capabilities that Australia has committed to may meet three short-to-medium term scenarios in declining order of probability – which has been termed here as ‘the good, the bad and the ugly’ – for Sino-US competition and/or conflict, with a focus on exploring the capability requirements, alliance posture and regional relationships required for success in each.⁶

- **The good: The normalisation of Sino-US ‘strategic competition’.** In this scenario, both Washington and Beijing stay to their current course characterised by mutual efforts to: insulate their economies from dependencies on the other through both protectionism and diversification; bolster their claims to global leadership; and maintain/develop alignments to balance against the other while avoiding outright conflict.
- **The bad: Retrenching America, resilient PRC.** This scenario is characterised by the retrenchment of US power under a second Trump presidency, simultaneous with a PRC rebounding successfully from its COVID-19-era travails. A second Trump administration would see increased pressure on allies in Asia to accept most of the burden for their defence and an American predilection to strike ‘deals’ with the PRC over major flashpoints such as Taiwan and the South China Sea. For Australia, its high level of strategic dependency on the US would be leveraged by a transactional and alliance-cynic president without concern for Australian interests.
- **The ugly: Retrenching America, retrenching PRC.** This scenario sees US retrenchment under a second Trump administration (as detailed in ‘the bad’ scenario), combined with stagnation and retrenchment of PRC power in the face of major domestic and foreign policy challenges. This scenario presents Australia with a worst-case outcome: US retrenchment removes the central pillar of Australian defence and strategic policy, while PRC stagnation weakens the Australian economy and compels the PRC to jump through a closing window of opportunity to establish regional spheres of influence.

What emerges from this discussion is not only that current defence and strategic policy is inadequate to deal with each of these scenarios but that the *only* scenario in which it would be appropriate is under a return of unchallenged American primacy. This latter scenario is not addressed here as it is the least probable outcome given: (1) the absence of consensus in US domestic politics on the necessity of primacy; (2) US strategic overstretch through simultaneous focus on Europe (i.e. war in Ukraine), the Middle East and Asia; (3) a shifting military balance in East Asia and the western Pacific that favours the PRC; and (4) the US focus on relative gains in its competition with the PRC hamstrings its global influence and leadership.⁷

The good: The normalisation of Sino-US ‘strategic competition’

At the time of writing, the normalisation of Sino-US ‘strategic competition’ appears to be the most likely scenario in which Australian defence and strategic policy will have to operate. The contours of Sino-US

⁶ Historian David J. Staley notes an important distinction between a prediction and a scenario here: ‘Both the designer and user of a prediction assume that the prediction is a certainty... A scenario, by contrast, is a statement that assumes uncertainty. It describes not a certain world but only a possible world.’ See David J. Staley, *History and Future: Using Historical Thinking to Imagine the Future* (Lanham, MA: Lexington Books, 2007), p. 13. The scenarios envisaged in this UTS:ACRI Analysis should be understood in this latter sense – i.e. suggestions of possible futures in which Australian defence and strategic policy may have to operate in.

⁷ For a sample of the extensive literature on American primacy, including debates about its longevity, see Michael Clarke, *American Grand Strategy and National Security: The Dilemmas of Primacy and Decline from the Founders to Trump* (Cham, Switzerland: Palgrave, 2021). For the fracturing of domestic consensus see Emma Ashford, ‘Strategies of restraint: Remaking America’s broken foreign policy’, *Foreign Affairs*, August 24 2021 <<https://www.foreignaffairs.com/articles/united-states/2021-08-24/strategies-restraint>>; Benjamin Tze Ern Ho, ‘A finely fractured consensus: American motivations for rules-based order’, *Washington Quarterly*, 45 (4) (2022), pp. 61-76; and Dina Smeltz, ‘Are we drowning at the water’s edge? Foreign policy polarization among the US public’, *International Politics*, 59 (2022), pp. 786–801.

strategic competition were well in train when President Joe Biden came into office in 2021 and have solidified over the subsequent two years. For Washington, competition is driven by the PRC's challenge to American power and leadership and the PRC's (perceived) desire to change the international order. For Beijing, competition is rooted in continued American 'hegemonic' pretensions to 'contain' the PRC amidst America's inevitable 'decline'. This makes both parties perceive the relationship in zero-sum terms, and the premium that this places on 'competition' impacts negatively on both PRC and American foreign and domestic policy agendas.

As has been made clear over the past two years, each parties' response to the trend of Sino-US relations has been to prioritise a 'security first' approach. The Biden administration's concrete actions in the strategic realm have reflected this through a major focus on bolstering, and burden-sharing with, existing allies such as Japan and Australia (including through the AUKUS agreement), and attempts to forge deeper ties with like-minded actors such as India and Taiwan.⁸ Simultaneously, the administration has pursued a 'decoupling' of high-tech trade with the PRC⁹, including overtly protectionist trade and industrial policies (such as the CHIPS Acts¹⁰) aimed at boosting American competitiveness in the context of bilateral Sino-US trade relations and undercutting the PRC's lead in emerging technologies.¹¹

The PRC, too, has reinforced the primacy of security considerations as bilateral ties have worsened. The linkage of increased pressure in the PRC's external environment and its domestic security was underscored in President Xi Jinping's report to the 20th Party Chinese Communist Party (CCP) Congress in October 2022. He warned that the country was entering 'a period of development in which strategic opportunities, risks, and challenges are *concurrent*' and the Party 'must therefore be more mindful of potential dangers, be prepared to deal with worst-case scenarios, and be ready to withstand high winds, choppy waters, and even dangerous storms'.¹²

To withstand such high winds, the continued application of a 'holistic approach to national security' was necessary, in which the Party would have 'the people's security as our ultimate goal, political security as our fundamental task, economic security as our foundation, military, technological, cultural, and social security as important pillars, and international security as a support'.¹³ This pessimistic framing of the external environment arguably reflects the Party's 'darker assessment of humanity's historical trajectory' and the 'hidden risks and open dangers' posed to the PRC's quest for 'national rejuvenation', according to the Director of the Washington-based Center for Strategic Translation, Tanner Greer.¹⁴

Such pessimism has been driven by the intersection of what American political scientist Sheena Chestnut Greitens terms Xi's 'obsession' with preventing challenges to the CCP's authority, the failure of the economy

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- 8 Philip Mousavizadeh, 'The Biden administration's China policy: An inventory of actions to address the challenge', *Just Security*, July 8 2022 <<https://www.justsecurity.org/82252/the-biden-administrations-china-policy-an-inventory-of-actions-to-address-the-challenge/>>.
- 9 See Jon Bateman, *U.S.-China Technological 'Decoupling': A Strategy and Policy Framework*, Carnegie Endowment for International Peace, April 25 2022 <<https://carnegieendowment.org/2022/04/25/u.s.-china-technological-decoupling-strategy-and-policy-framework-pub-86897>>.
- 10 Brian Bushard, 'CHIPS act passes: House approves \$280 billion bill to boost microchip production and counter China', *Forbes*, July 28 2022 <<https://www.forbes.com/sites/brianbushard/2022/07/28/chips-act-passes-house-approves-280-billion-bill-to-boost-microchip-production-and-counter-china/?sh=4dc6c7c92bfd>>.
- 11 See, e.g., Hal Brands, 'Biden's chip limits on China mark a war of high-tech attrition', *Bloomberg*, October 10 2022 <<https://www.bloomberg.com/opinion/articles/2022-10-09/biden-s-chip-limits-on-china-mark-a-war-of-high-tech-attrition#xj4y7vzkg>>; Gavin Bade, 'A sea change': Biden reverses decades of Chinese trade policy', *Politico*, December 26 2022 <<https://www.politico.com/news/2022/12/26/china-trade-tech-00072232>>; and Paul Poast, 'Biden's tech restrictions on China aren't just about economics', *World Politics Review*, August 18 2023 <<https://www.worldpoliticsreview.com/us-china-trade-war-restrictions-semiconductors-tech-biden/>>. These trends were reinforced by National Security Adviser Jake Sullivan's April 27 2023 speech at the Brookings Institution that made the case for 'national security' concerns to guide US economic policy. Sullivan argued that the guiding assumption of post-1945 US policy – 'that markets always allocate capital productively and efficiently—no matter what our competitors did' – no longer applies as the integration of a 'non-market economy' (China) into the global economy has produced 'dependencies' that can be 'exploited for economic or geopolitical leverage' as 'entire supply chains of strategic goods—along with the industries and jobs that made them—moved overseas' in the 'name of oversimplified market efficiency'. See The White House, 'Remarks by National Security Advisor Jake Sullivan on renewing American economic leadership at the Brookings Institution', April 27 2023 <<https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>>.
- 12 Xinhua, 'Full text of the report to the 20th National Congress of the Communist Party of China', *China Daily*, October 25 2022 <<https://global.chinadaily.com.cn/a/202210/25/WS6357e484a310fd2b29e7e7de.html>>. Author's emphasis.
- 13 *Ibid.*
- 14 Tanner Greer, 'China's peaceful slogans are replaced by dark thoughts', *Al-Arabiya*, March 2 2023 <<https://english.alarabiya.net/views/2023/03/02/China-s-peaceful-slogans-are-replaced-by-dark-thoughts>>. See also Tanner Greer, 'Watching Xi Jinping slowly strangle the Dengist economic paradigm', *The Scholar's Stage*, March 11 2023 <<https://scholars-stage.org/the-slow-death-of-chinas-economic-paradigm/>>.

to bounce back from its COVID-induced slump, and the perception of US-led 'containment'.¹⁵ Domestically, this has resulted in 'purges of political rivals, clampdowns on sectors of the Chinese economy, crackdowns on foreign entities operating inside China, and calls for heightened vigilance against foreign infiltration and manipulation of Chinese society'.¹⁶ In the realm of foreign policy, these concerns have shaped a shift in the PRC's approach away from the strident 'wolf warrior' diplomacy toward a more pragmatic stance that seeks to rebuild the PRC's relations with many US allies and partners (e.g., the European Union, Australia, Japan), reinvigorate ties with key regional bodies such as ASEAN and the Shanghai Cooperation Organisation (SCO) and deepen PRC engagement with the developing world to offset perceived US attempts to 'suppress' it.¹⁷

The PRC has also adopted more explicit language that points the finger of blame squarely at the US for the PRC's current challenges. In a discussion with PRC commerce and industry representatives on March 7 2023, for instance, Xi described the PRC's international environment as full of 'uncertainties and unpredictable factors', foremost of which is that 'the Western countries led by the United States have carried out all-round containment and suppression of China'.¹⁸ A *Xinhua* commentary after the meeting of PRC Foreign Minister Wang Yi and US National Security Adviser Jake Sullivan in Vienna on May 11 2023 made this position explicit when it noted that while the US 'claims that it is not seeking to decouple from China and has no intention of obstructing China's development', it nonetheless simultaneously 'squeezes' the PRC by 'imposing' trade restrictions 'under the pretext of national security' and rushes 'to encircle China in the Asia-Pacific by mustering such Cold-War style groupings as the AUKUS and the Quad alliances'.¹⁹ The commentary concluded that American policy is driven by the belief of US decision-makers that 'China must be brought down in order to keep America ahead'.²⁰

The normalisation of competition as the organising principle for Sino-US relations was underscored by President Biden and President Xi's November 16 2023 meeting in Washington, DC. While the meeting produced some short-term outcomes such as restoring military-to-military dialogue, it reinforced the underpinning bases for ongoing strategic competition. President Biden, for instance, was explicit in framing the US and the PRC as locked into 'competition' and reaffirmed his administration's commitment 'to invest in the sources of American strength at home and align with allies and partners around the world'. He also called for 'restraint in the PRC's use of military activity in and around the Taiwan Strait' and 'raised continued concerns' about the PRC's 'unfair trade policies', 'non-market economic practices', and human rights abuses in Xinjiang, Tibet and Hong Kong.²¹ Xi, although not explicitly framing relations as a competition, nonetheless asserted that the 'US has continuously taken measures against China in terms of export controls, investment reviews and unilateral sanctions' which have 'seriously undermined China's legitimate interests'. Such

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- 15 See Sheena Chestnut Greitens, 'Xi's security obsession', *Foreign Affairs*, July 28 2023 <<https://www.foreignaffairs.com/china/xis-security-obsession>>. For Chinese perceptions of the Biden administration's strategy see Joel Wuthnow and Elliot S. Ji, 'Bolder gambits, same challenges: Chinese strategists assess the Biden admin's Indo-Pacific strategy', *China Leadership Monitor*, August 29 2023 <<https://www.prcleader.org/post/bolder-gambits-same-challenges-chinese-strategists-assess-the-biden-admin-s-indo-pacific-strategy>>.
- 16 Ryan Hass, 'China's response to American-led "containment and suppression"', *China Leadership Monitor*, August 29 2023 <<https://www.prcleader.org/post/china-s-response-to-american-led-containment-and-suppression>>. A recent example of this trend has been the PRC's 'counter-espionage' crackdown throughout 2023 which focused on a range of foreign companies and individuals for alleged 'leaking' of information related to 'national security or interests' to foreign governments or entities. See Dan Macklin, 'Decoding China's counter-espionage crackdown', *The Diplomat*, May 20 2023 <<https://thediplomat.com/2023/05/decoding-chinas-counter-espionage-crackdown/>>; and Clement Tan, 'China's security crackdown could signal new realities for foreign investors', *CNBC*, May 15 2023 <<https://www.cnb.com/2023/05/16/china-data-crackdown-could-usher-in-new-realities-for-foreign-investors.html>>.
- 17 See Philim Kine and Stuart Lau, 'China turns on the charm', *Politico*, January 19 2023 <<https://www.politico.eu/article/china-diplomacy-liu-he-europe-beijing-davos-world-economic-forum-xi-jinping/>>; Catherine Putz, 'In Xi'an, China's Xi calls for a "shared future" with Central Asia', *The Diplomat*, May 19 2023 <<https://thediplomat.com/2023/05/in-xian-chinas-xi-calls-for-a-shared-future-with-central-asia/>>; Jevans Nyabiage, 'BRICS summit: African countries wait in the wings for expansion of economic bloc as China goes on post-Covid charm offensive', *South China Morning Post*, August 19 2023 <<https://www.scmp.com/news/china/diplomacy/article/3231482/brics-summit-african-countries-wait-wings-expansion-economic-bloc>>; and Edna Tarigan and Jim Gomez, 'China's premier is on a charm offensive as ASEAN summit protests Beijing's aggression at sea', *Associated Press*, September 7 2023 <<https://apnews.com/article/asean-south-china-sea-li-qiang-0e0eff908aba28e835423c5607c3553b>>.
- 18 Xinhua, 'Xi calls for guiding healthy, high-quality development of private sector', *Qiushi*, March 8 2023 <http://en.qstheory.cn/2023-03/08/c_867042.htm>.
- 19 Xinhua, 'Washington should demonstrate genuine sincerity to stabilize ties with Beijing', *XinhuaNet*, May 13 2023 <<https://english.news.cn/20230513/2631ccb5bc0b4233895de30675d026bc/c.html>>.
- 20 *Ibid.*
- 21 The White House, 'Readout of President Joe Biden's meeting with President Xi Jinping of the People's Republic of China', November 16 2023 <<https://www.whitehouse.gov/briefing-room/statements-releases/2023/11/15/readout-of-president-joe-bidens-meeting-with-president-xi-jinping-of-the-peoples-republic-of-china-2/>>.

policies, he declared pointedly, are designed to ‘curb China’s high-quality development and deprive the Chinese people of their right to development’.²²

Both Washington and Beijing, then, appear firmly set on trajectories that lock in rather than ameliorate bilateral tension and competition. What, then, are the implications for Australia?

Some may argue that Sino-US ‘strategic competition’ is in fact what AUKUS and the DSR have been structured around. This is misleading on two counts.

First, as this UTS:ACRI Analysis series has demonstrated, the DSR is inadequate to meet the military and strategic requirements of increasing Sino-US competition. This is due not only to the misalignment of objectives, strategy and capabilities in the DSR but also to the lack of clarity around how, and in which contexts, Australian strategy and capabilities will contribute to the Biden administration’s ‘integrated deterrence’ approach to managing the potential for conflict with the PRC. This latter issue, as Part 2 of this series detailed, represents a source of considerable risk for Australia as there is a contradiction between the conception of deterrence (i.e. deterrence by denial) and the capabilities to achieve it identified by the DSR, on the one hand, and the conception of deterrence (i.e. integrated deterrence) adopted by the Biden administration. The conceptualisation and practice of ‘integrated deterrence’ to date indicates an effort geared less to the deterrence of immediate threats and capabilities than one concerned with dissuasion – i.e., it seeks to leverage not only military but diplomatic and economic instruments of national power to convince a potential adversary not to pursue certain military and strategic actions that may make conflict more likely. This, as Part 3 demonstrated, is problematic for Australia (and the US) given that the PRC’s current military posture and capabilities are focused on ‘local balancing’ to deny the ability of the US (and its allies) intervening in what Beijing considers to be its immediate security environment in East Asia and the western Pacific.

These strategy and capability problems are overlaid by a second, and broader, geo-economic one in that current Australian defence and strategic policy does not appear to take adequate account of the dynamics of what could be termed the emerging political economy of ‘strategic competition’. Ashley Tellis, senior fellow of the Carnegie Endowment for International Peace, notes that strategic competition as the default setting for Sino-US relations has been driven on the US side by the fact that American ‘national security elites fear that the rise of China has diminished the relative power of the United States’.²³ This has predictably resulted in both internal and external balancing behaviour²⁴ through a focus on mobilising greater domestic resources for security (including restrictive trade practices and increasing defense expenditure) and the deepening of existing alliances/alignments and fostering of new ones to counter the PRC’s perceived threat.

The Biden administration’s economic approach to this challenge reveals the overriding concern with relative gains that one would expect in such a scenario.²⁵ While the administration has preferred to frame its economic approach as ‘de-risking’ rather than its predecessor’s ‘decoupling’ agenda, its policies demonstrate not only a desire to limit exposure to dependencies on PRC supply chains but also to weaken sources of PRC economic dynamism as a means of sustaining American hegemony. The Biden administration has therefore retained all the Trump-era trade tariffs on the PRC and its intensive scrutiny of PRC foreign direct investment in the American economy. It has also added its own suite of policies – such as the Inflation Reduction Act, CHIPS Act and ‘place-based’ industrial policy that seeks to ‘re-shore’ key industries and supply chains²⁶ – that, in the words of National Security Adviser Jake Sullivan, are geared to maintaining ‘as

22 Foreign Ministry of the People’s Republic of China, ‘Xi Jinping and US President Joe Biden held a China-US summit’, November 16 2023 <https://www.fmprc.gov.cn/zyxw/202311/t20231116_11181125.shtml>.

23 Ashley Tellis, ‘Interdependence imperiled? Economic decoupling in an era of strategic competition’, in Ashley Tellis, Alison Szalwinski and Michael Wills (eds.), *Strategic Asia: Reshaping Economic Interdependence in the Indo-Pacific* (Washington DC: National Bureau of Asian Research, 2023), p. 15.

24 See Kenneth M. Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979), pp. 117-120; and Randall Schweller, ‘Unanswered threats: A neoclassical realist theory of underbalancing’, *International Security*, 29 (2) (2004), pp.159-201.

25 See Joseph Grieco, Robert Powell and Duncan Snidal, ‘The relative-gains problem for international cooperation’, *American Political Science Review*, 87 (3) (1993), pp. 729-743.

26 See ‘The Biden administration embraces place-based industrial policy’, *The Economist*, July 27 2023 <<https://www.economist.com/united-states/2023/07/27/the-biden-administration-embraces-place-based-industrial-policy>>; and Mark Munro, ‘Biden’s big bet on place-based industrial policy’, Brookings Institution, March 9 2023 <<https://www.brookings.edu/articles/bidens-big-bet-on-place-based-industrial-policy/>>.

large a lead as possible over China'.²⁷ Through this 'progressive economic nationalism'²⁸, the administration is attempting to achieve interlinked domestic and foreign policy goals of strengthening the US middle class, stimulating domestic economic innovation, and pushing 'the technology frontier outward in both the civilian and military realms to the advantage of the United States'.²⁹

This, however, constitutes a 'potentially transformational shift' in American macro-economic policy that carries with it 'thorny foreign-policy implications'.³⁰

First, it negatively impinges on Washington's capacity to act as the leader of a 'rules-based' global economic order. Not only does Biden's 'progressive economic nationalism' turn its back on Washington's post-1945 agenda of removing restrictions on global trade but it also undercuts the notion that the US can, in Jake Sullivan's words, 'be at the heart of a vibrant, international financial system that enables partners around the world to reduce poverty and enhance shared prosperity'.³¹ It does so, the director-general of the World Trade Organization Ngozi Okonjo-Iweala has recently argued, as it 'is saying we will now subsidise our way through production and it doesn't matter what it does to poor countries, they'll never be able to compete...[developing countries] begin to see their position as being very negative and that does not persuade them to be part of the integrated multilateral trading system'.³² This, as President of the Free and Open Indo-Pacific Forum Kaush Arha notes, 'invites a world full of fences of varying heights, protecting yards of uneven size', and thus perpetuating global economic inequalities.³³

Second, this dynamic weakens American efforts to combat PRC development and investment activities such as the Belt and Road Initiative (BRI), which Washington sees as leading to economic dependencies that will be leveraged by Beijing for strategic objectives.³⁴

Third, it runs the risk that others will seek to emulate American policy. 'Other countries', as economists James C. Capretta and Stan Veuger argue, 'will not simply accept higher barriers to their products in the US market without responding in kind' and the result will be a protectionist race to the bottom with 'reduced productivity growth for all concerned'.³⁵

These dynamics represent a range of challenges for US allies in the Indo-Pacific, including Australia. Most importantly, the Biden administration's 'progressive economic nationalism' and its centrality to the administration's broader 'strategic competition' with the PRC exacerbates the tensions within allied calculations regarding the balance of their economic and strategic/security interests vis-à-vis the Sino-US contest. Indeed, as a series of in-depth case studies published recently by the National Bureau of Asian Research demonstrates, the emerging political economy of 'strategic competition' is not inducing a straight 'guns or butter' choice but rather prompting many US allies to seek to achieve a 'guns and butter' outcome.³⁶ The 'headline conclusion' from these studies, as one of the report's editors, Ashley Tellis, notes, is that

27 The White House, 'Remarks by National Security Advisor Jake Sullivan at the Special Competitive Studies Project Global Emerging Technologies Summit', September 16 2022 <<https://www.whitehouse.gov/briefing-room/speeches-remarks/2022/09/16/remarks-by-national-security-advisor-jake-sullivan-at-the-special-competitive-studies-project-global-emerging-technologies-summit/>>.

28 See, e.g., Paul Krugman, 'Working out: Economic nationalism, Biden-style', *New York Times*, June 11 2021 <<https://www.nytimes.com/2021/06/11/opinion/economic-nationalism-biden-trump-trade.html>>; Franklin Foer, 'The new Washington consensus', *The Atlantic*, May 9 2023 <<https://www.theatlantic.com/ideas/archive/2023/05/biden-economics-industrial-policy-trump-nationalism/673988/>>; and Robert Kuttner, 'Reclaiming US industry', *American Prospect*, January 24 2023 <<https://prospect.org/economy/2023-01-24-biden-american-industrial-policy/>>.

29 Ashley Tellis, 'Interdependence imperiled? Economic decoupling in an era of strategic competition', in Ashley Tellis, Alison Szalwinski and Michael Wills (eds.), *Strategic Asia: Reshaping Economic Interdependence in the Indo-Pacific* (Washington DC: National Bureau of Asian Research, 2023), p. 22.

30 Robert Kuttner, 'Reclaiming US industry', *American Prospect*, January 24 2023 <<https://prospect.org/economy/2023-01-24-biden-american-industrial-policy/>>.

31 The White House, 'Remarks by National Security Advisor Jake Sullivan on renewing American economic leadership at the Brookings Institution', April 27 2023 <<https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>>.

32 Quoted in Gideon Rachman, 'Bidenomics and global trade', *Financial Times*, September 28 2023, <<https://www.ft.com/content/cd6257be-0b8c-4499-84d8-73a987f9c3b4>>.

33 Kaush Arha, 'Bidenomics invites a global economy full of fences, to the United States' detriment', *New Atlanticist*, Atlantic Council, October 24 2023 <<https://www.atlanticcouncil.org/blogs/new-atlanticist/bidenomics-invites-a-global-economy-full-of-fences-to-the-united-states-detriment/>>.

34 Gavin Bade, 'Bidenomics' is going global. The world is skeptical', *Politico*, September 9 2023 <<https://www.politico.com/news/2023/09/08/bidenomics-g-20-world-00114625>>.

35 James C. Capretta and Stan Veuger, 'The new Washington consensus on trade is wrong', *Foreign Policy*, June 12 2023 <<https://foreignpolicy.com/2023/06/12/free-trade-new-washington-consensus-biden-protectionism-trump/>>.

36 See Ashley Tellis, Alison Szalwinski and Michael Wills (eds.), *Strategic Asia: Reshaping Economic Interdependence in the Indo-Pacific* (Washington DC: National Bureau of Asian Research, November 2023). The publication contains case studies of Japan, South Korea, Taiwan, India and Australia.

‘despite the growing dangers posed by Beijing’ many states in the region ‘still value the gains from trade with China’ and ‘are loath to restrict their commercial ties because the absolute gains accruing are desirable both to fulfill domestic political objectives and to effectively support the internal balancing necessary to cope with Chinese assertiveness’.³⁷

Put simply, maintaining beneficial economic relations with the PRC is, ironically, seen as a necessary condition for many of these states to fund the significant defence investments deemed necessary by growing PRC power and assertiveness.³⁸ The approach of the Albanese government to managing Sino-Australian relations appears apposite here. While attempting to ‘stabilise’ bilateral ties, the Albanese government has been clear that ‘de-coupling’ of the American kind is not in our economic interests and that it seeks the reinvigoration of ‘rules-based’ regional trade and economic multilateralism (such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership). This reflects a recognition that, in the near to medium term, the ‘economic opportunities presented by China’s internal market in terms of size and price premiums remain unparalleled’ for the Australian economy.³⁹ ‘Australia’s ongoing high living standards’, as former deputy governor of the Reserve Bank of Australia Stephen Grenville pithily argues, ‘depend crucially on the Chinese market’ as ‘there is no realistic diversification that can alter this dependence. Selling barley to feed Saudi Arabian camels is less profitable than selling it to Chinese beer brewers’.⁴⁰

This sets up a latent tension with the Biden administration’s strategy for competition with the PRC. Whether or not this becomes overt depends a great deal on factors almost entirely out of Australian hands.

What assurance does Canberra have (or can it hope to have), for instance, that the US will not seek to pressure –rather than simply encourage –allies to divest themselves from their attachment to this ‘guns and butter’ approach? American propensity for this may be raised considerably should its ‘progressive economic nationalism’ fail in its core objective of strengthening US capacity for internal balancing and the PRC succeed in deepening trade and economic connectivity (and leverage) with the major economies of the Indo-Pacific.

Alternatively, the privileging of guns over butter (i.e. choosing security alignment with the US over economic ties with the PRC) for many US allies in Asia (including Australia) would become an imperative should direct conflict occur between Washington and Beijing over, for example, the status of Taiwan. For Australia, this would involve not only the imposition of considerable economic costs that to date it has not been willing to bear, but also considerable strategic risk given the misalignment of objectives, strategy and capabilities evident in the DSR.

In summary, the normalisation of Sino-US ‘strategic competition’ as the fulcrum of regional geopolitics carries with it considerable risks that are not adequately accounted for by Australia’s current defence and strategic policy settings.

The bad: Retrenching America, resilient PRC

If the extension of a relatively stable Sino-US ‘strategic competition’ into the near to medium term contains risks, then they are markedly amplified if Australia were to be confronted by the dynamic of a resilient PRC and a retrenching America. This has been seen by many to be the ‘nightmare’ scenario for Australia,

³⁷ Ashley Tellis, ‘Interdependence imperiled? Economic decoupling in an era of strategic competition’, in Ashley Tellis, Alison Szalwinski and Michael Wills (eds.), *Strategic Asia: Reshaping Economic Interdependence in the Indo-Pacific* (Washington DC: National Bureau of Asian Research, 2023), p. 6.

³⁸ A report by the Peterson Institute for International Economics notes, for example, that while the Biden administration has sought to encourage allies and partners to diversify away from the PRC through such initiatives as the Indo-Pacific Economic Framework (IPEF), ‘analysis of data from bilateral trade flows from 2010 to 2021 provides clear evidence’ that such efforts ‘push against long-term market trends’, which have seen the majority of IPEF’s fourteen member states increase their dependency on China as both a source of imports and destination for exports. See Abigail Dahlman and Mary E. Lovely, ‘US-led effort to diversify Indo-Pacific supply chains away from China runs counter to trends’, Peterson Institute for International Economics, September 6 2023 <<https://www.piie.com/blogs/realtime-economics/us-led-effort-diversify-indo-pacific-supply-chains-away-china-runs-counter>>.

³⁹ Darren J. Lim, Benjamin Herscovitch and Victor A. Ferguson, ‘Australia’s reassessment of economic interdependence with China’, in Ashley Tellis, Alison Szalwinski and Michael Wills (eds.), *Strategic Asia: Reshaping Economic Interdependence in the Indo-Pacific* (Washington DC: National Bureau of Asian Research, November 2023), p. 301.

⁴⁰ Stephen Grenville, ‘How should Australia react to Bidenomics?’, *The Interpreter*, Lowy Institute, October 24 2023 <<https://www.lowyinstitute.org/the-interpreter/how-should-australia-react-bidenomics>>.

combining the twin perils of strategic abandonment by an ‘isolationist’ Washington and coercion (or worse) by a powerful Beijing.

Trump 2.0

The immediate catalysts for such a scenario on the US side of this equation are not too difficult to envision: a return to the presidency of Donald Trump, the further radicalisation of the Republican Party and polarisation of US domestic politics. These would exacerbate the deeper structural issues that currently confront American power and interests globally by centering transactionalism, unilateralism, economic protectionism and militarism as major themes in US decision-making.⁴¹

For Australia – and indeed other US allies throughout the globe – a second Trump presidency looms as more troublesome than the first. While no one can predict with absolute certainty what a second Trump administration would mean for Australia, the precedents established during his first term and the subsequent trend lines within the GOP since 2020 should exercise policymakers’ minds in Canberra. Three factors should give pause to those who would argue that Australia can not only weather the storm but perhaps even benefit from a second Trump term: (1) Trump’s ‘learning’ curve; (2) the Trumpification of the Republican Party; and (3) Trump’s foreign policy record.

A major argument of some Australian commentators during Trump’s first term was that his executive excesses were mitigated by the ‘guardrails’ provided by the countervailing weight of both the judicial and legislative branches and the national security bureaucracy. This is unlikely to be the case in a second Trump presidency. This is because, as American political scientist Daniel Drezner notes, even such ‘an immature, impulsive leader with a short attention span’ such as Donald Trump ‘can move down a learning curve’.⁴² In particular, it is likely that Trump has learned that the adage ‘personnel is policy’ is key to driving the national security bureaucracy toward a president’s desired policy ends. Given his experiences during the first term,⁴³ it is almost a certainty that in a second term Trump would appoint out-and-out loyalists to key national security positions in his cabinet.⁴⁴ In fact, Trump has indicated his intent, should he be re-elected, to ‘clean out all of the corrupt actors in our National Security and Intelligence apparatus...so that faceless bureaucrats will never again be able to target and persecute conservatives, Christians or the left’s political enemies’.⁴⁵ This would also likely be supported by congressional Republicans, given their much clearer ‘Trumpish’ hue since 2016.⁴⁶ The upshot, as Drezner notes, would be that ‘Trump’s own foreign policy team would likely feature hardly

41 For discussions of how these themes were evident during Trump’s 2017–2020 term see Michael Clarke and Anthony Ricketts, ‘Donald Trump and American foreign policy: The return of the Jacksonian tradition’, *Comparative Strategy*, 36 (4), pp. 366–379; Peter Harris, ‘Why Trump won’t retrench: The militarist redoubt in American foreign policy’, *Political Science Quarterly*, 133 (4) (2018), pp. 611–640; and Georg Löffmann, ‘From the Obama doctrine to America First: The erosion of the Washington consensus on grand strategy’, *International Politics*, 57 (4) (2020), pp. 588–605.

42 Daniel Drezner, ‘What would Trump’s second term foreign policy look like?’, *The Washington Post*, April 21 2022 <<https://www.washingtonpost.com/outlook/2022/04/21/what-would-trumps-second-term-foreign-policy-look-like/>>.

43 The examples of Trump’s conflict with ‘deep state’ figures such as Secretary of State Rex Tillerson (February 2017–March 2018), Secretary of Defense James Mattis (February 2017–February 2019) and National Security Adviser H. R. McMaster (February 2017–April 2019) in following through on a number of Trump major foreign policy preferences are indicative here. On Trumpist notions of the ‘deep state’ see Robert B. Horwitz, ‘Trump and the ‘deep state’’, in Toby S. James (ed.), *The Trump Administration: The President’s Legacy Within and Beyond America* (London: Routledge, 2022), pp. 41–58.

44 Indeed, this is something that he attempted during the transition between his and the incoming Biden administration, firing Secretary of Defense Mark Esper and several of his under-secretaries and replacing them with underqualified but loyal officials to accelerate US military withdrawal from Afghanistan. See Arie Perliger, ‘Trump’s purge of defense agencies comes at a vulnerable time for US national security’, *The Conversation*, November 19 2020 <<https://theconversation.com/trumps-purge-of-defense-agencies-comes-at-a-vulnerable-time-for-us-national-security-149853>>; and Dexter Filkins, ‘Why Trump carried out his Pentagon purge’, *The New Yorker*, November 13 2020 <<https://www.newyorker.com/news/our-columnists/why-trump-carried-out-his-pentagon-purge>>.

45 Kirsten Holmes, ‘Trump’s radical second-term agenda would wield executive power in unprecedented ways’, *CNN*, November 17 2023 <<https://edition.cnn.com/2023/11/16/politics/trump-agenda-second-term/>>.

46 Michael Espinoza, ‘Donald Trump’s impact on the Republican Party’, in Toby S. James (ed.), *The Trump Administration: The President’s Legacy Within and Beyond America*, (London: Routledge, 2022), pp. 134–150. The Trumpification of the Republican Party is underscored by the GOP’s election of Trump loyalist, Representative Mike Johnson, as the new House speaker on October 25 2023. See Lloyd Green, ‘The Maga-fication of congressional Republicans is now complete’, *The Guardian*, October 27 2023 <<https://www.theguardian.com/commentisfree/2023/oct/26/maga-republicans-mike-johnson-speaker>>.

anyone with a significant record of leadership in diplomacy or the military that could put the brakes on his wildest ideas – in other words, there will no longer be any adults in the room’.⁴⁷

Trump has also shifted traditional Republican foreign policy views away from internationalism toward a heady, and sometimes contradictory, brew of belligerent unilateralism, militarism and retrenchment. Although Trump himself declined to attend, the shadow of his foreign policy views loomed large over the latest Republican presidential primary debate on November 8 2023. None of the five candidates – Chris Christie, Nikki Haley, Ron DeSantis, Vivek Ramaswamy and Tim Scott – expressed anything that resembled a traditional Republican foreign policy position. Rather, as University of Massachusetts Professor Paul Musgrave notes, they voiced what appear to be the twin faces of contemporary GOP foreign policy: ‘One set of presidential aspirants argue for a starkly militarist, unilateral form of engagement with the world. The other set sees the US as needing to retreat, at a minimum to deal with China and at a maximum to turn the country into a fortress’.⁴⁸ The former has been expressed in calls to unilaterally violate Mexican sovereignty to pursue drug cartels⁴⁹ and to ‘cut the head of the snake’ in the Middle East by attacking Iran⁵⁰, while the latter is seen in bubbling congressional GOP opposition to ongoing military aid to Ukraine.⁵¹

Trump himself, as amply demonstrated during his presidency, cares little for traditional US alliances and decries them as both strategic and economic liabilities.⁵² Combined with his admiration for Russian President Vladimir Putin and dislike of Ukrainian President Volodymyr Zelenskyy, it would appear likely that if returned to the White House, Trump would channel current GOP division on the war in Ukraine to, at the very least, strongly condition American support to Kiev.⁵³ His position on other key American alliances is also clear. During his final year in office, for example, he reportedly ‘privately indicated that he would seek to withdraw from NATO and to blow up the US alliance with South Korea, should he win re-election’.⁵⁴

His predilection to mix bluster and flattery in dealings with other foreign leaders such as North Korea’s Kim Jong-un (‘he wrote me beautiful letters’⁵⁵) and Xi Jinping (‘a great man’ and ‘brilliant leader’⁵⁶) in pursuit of a ‘deal’ for America also presents a troubling dynamic for allies. Trump’s handling of Sino-US relations during his term suggested a disconnect between the president’s own views and those of his national security team. Several accounts of the Trump White House, for instance, report multiple instances of Trump dismissing his team’s concerns over PRC repression in Hong Kong and Xinjiang and his questioning of American commitments to defend Taiwan.⁵⁷

Taken in combination, these factors pose at least three problems for current Australian defence and strategic policy.

47 Daniel Drezner, ‘Bracing for Trump 2.0: His possible return inspires fear in America’s allies—and hope in its rivals’, *Foreign Affairs*, September 5 2023 <<https://www.foreignaffairs.com/united-states/bracing-trump-possible-return-allies-rivals>>. See also Walter Russell Mead, ‘A ‘Trumpier’ second-term foreign policy’, *Wall Street Journal*, October 2 2023 <<https://www.wsj.com/articles/a-trumpier-second-term-foreign-policy-international-relations-diplomacy-presidential-election-7eb83efc>>.

48 Paul Musgrave, ‘The debate reveals a brutal reality about Republican foreign policy’, *Politico*, November 8 2023 <<https://www.politico.com/news/magazine/2023/11/09/gop-isolationist-foreign-policy-00126445>>.

49 Greg Gradin, ‘The Republicans who want to invade Mexico’, *New York Times*, November 1 2023 <<https://www.nytimes.com/2023/11/01/opinion/sunday/republican-war-mexico.html>>.

50 Eric Boehm, ‘Republicans pivot to bombing Iran in third debate’, *Reason*, November 9 2023 <<https://reason.com/2023/11/08/republicans-pivot-to-bombing-iran-in-third-debate/>>.

51 See, e.g., Robbie Gramer, ‘McConnell’s Ukraine legacy turns into political headache’, *Foreign Policy*, November 2 2023 <<https://foreignpolicy.com/2023/11/02/republicans-ukraine-support-mcconnell-funding-politics-house-gop/>>; and Joan E. Greve, ‘Hard-right house Republicans are against Ukraine aid – and they seem to be in charge’, *The Guardian*, October 14 2023 <<https://www.theguardian.com/us-news/2023/oct/14/republican-house-ukraine-support-gaetz>>.

52 See, e.g., Uri Friedman, ‘Trump vs. NATO: It’s not just about the money’, *The Atlantic*, July 12 2018 <<https://www.theatlantic.com/international/archive/2018/07/trump-nato-allies/564881/>>; Andrew Richter, ‘NATO in the age of Trump: Alliance defense spending during the Trump presidency’, *Comparative Strategy* 40 (3) (2021), pp. 285-304.

53 Fred Kaplan, ‘When Trump promises to end the Ukraine war, here’s what he really means’, *Slate*, June 23 2023, <<https://slate.com/news-and-politics/2023/06/trump-ukraine-russia-war-diplomacy-deal.html>>.

54 Carol Leonnig and Phillip Rucker, ‘Inside Trump’s election day and the birth of the “big lie”’, *Washington Post*, July 15 2021 <<https://www.washingtonpost.com/politics/2021/07/13/book-excerpt-i-alone-can-fix-it/>>.

55 Roberta Rampton, ‘“We fell in love” – Trump swoons over letters from North Korea’s Kim’, *Reuters*, September 30 2018 <<https://www.reuters.com/article/us-northkorea-usa-trump-idUSKCN1MA03Q/>>.

56 Daniel Moritz-Rabson, ‘Trump calls Chinese President Xi a ‘great leader’ and ‘brilliant man’, criticizes media at G7 presser’, *Newsweek*, August 26 2019 <<https://www.newsweek.com/trump-calls-chinese-president-xi-great-leader-brilliant-man-criticizes-media-g7-presser-1456138>>.

57 See for example Josh Rogin, *Chaos Under Heaven: Trump, Xi, and the Battle for the Twenty-First Century* (New York: Mariner Books, 2021); and John Bolton, *The Room Where It Happened: A White House Memoir* (New York: Simon & Schuster, 2020).

First, Trump's known transactionalism and disdain for alliances raises questions about the future of the SSN 'optimal pathway' if he were to be re-elected. As Part 2 of this series has previously noted, there are already considerable hurdles to be overcome for Australia to acquire the interim Virginia-class submarines: one concern is US naval shipyard capacity; another is how the sale of two or three Virginia-class submarines will impact the US navy's own capabilities.⁵⁸ Given Trump's track-record, Australia can have little assurance that he would not seek to revise the agreement, either in terms of what Australia will pay for the two or three Virginia's or in the scale of Canberra's investment in US naval shipyard capacity (currently standing at some \$3 billion).

Second, the SSN issue is emblematic of how the Morrison and Albanese governments have locked Australian defence and strategic policy into an outright relationship of dependency on the US. Indeed, as strategist Paul Dibb has noted, Australia has 'no credible defence future without the US alliance'.⁵⁹ In the past, the power asymmetry inherent to the Australia-US alliance has prompted Australian governments to pay an 'alliance premium' of committing to various US strategic and military operations as a means of maintaining the presumed defence guarantee to Australia under the ANZUS Treaty.⁶⁰ The costs of that premium may increase considerably with a second Trump administration. Australia's increased dependency on, and increased 'sunk costs' in, the alliance⁶¹ will provide leverage that Trump would likely have few qualms about exercising. Hope, too, that appeals to Australia's history as a 'loyal' and committed ally may mediate Trump's transactional proclivities will also likely fall of deaf ears.

Third, as Part 2 this series has detailed, current Australian defence and strategic policy makes some attempts to align with the Biden administration's 'integrated deterrence' concept. That concept, however, encapsulates predominant themes of dissuasion, escalation control and burden-shifting, which suggests that the US has moved toward a more risk-averse posture than in the immediate past. While the thrust of the Biden administration's understanding and practice of 'integrated deterrence' seems at odds with the DSR's much tighter focus on the deterrence of immediate challenges/threats, it has nonetheless served as stimulus for greater focus on how Australia can not only position its military forces and capabilities to fend off immediate threats but also how it can best develop its defence infrastructure, sustainment and logistics capabilities to support American power projection. It is unlikely that 'integrated deterrence' will survive a second Trump administration as he will not only seek to overturn policy initiatives associated with his predecessor but also because the concept itself is unlikely to shift what he would regard to be enough of the burden onto allies for their own defence.

Resilient PRC

The risks of a second Trump presidency would be exacerbated should the PRC succeed in its efforts to reinvigorate its economy after its COVID-induced slump, modernise its military and reinvigorate its global diplomatic engagement. Just as with the case of the US, predicting the PRC's trajectory in the short to medium term is fraught with danger. However, there are a few trend lines that provide some guidance as to possible positive outcomes for Beijing.

Key to the PRC's trajectory in the short term, as the Asia Society Policy Institute's Neil Thomas argues, will be the success or failure of what he describes as Xi's 'three balancing acts': 'balancing growth with security in economic policy', 'balancing diplomatic struggle against US global leadership with avoiding economic decoupling from the West', and 'balancing competition between different sub-factions in elite politics'.⁶²

Xi's ability to manage the last of these balancing acts appears – at least in the short term – to be relatively assured. Indeed, despite some external speculation that his position atop the Party-state apparatus was

58 See Ronald O'Rourke, *Navy Virginia-Class Submarine Program and AUKUS Submarine Proposal: Background and Issues for Congress* (Washington DC: Congressional Research Service, 2023).

59 Paul Dibb, 'New security reality demands new Australian policy', *The Strategist*, Australian Strategic Policy Institute, July 23 2018 <<https://www.aspistrategist.org.au/new-security-reality-demands-new-australian-policy/>>.

60 Andrew O'Neil, 'The future of Australia-US strategic and defence cooperation: An Australian perspective', in Scott D. MacDonald and Andrew Tan (eds.), *The Future of the United States-Australia Alliance: Evolving Security Strategy in the Indo-Pacific* (London: Routledge, 2020), pp. 181-195.

61 Thomas Wilkins, 'Re-assessing Australia's intra-alliance bargaining power in the age of Trump', *Security Challenges*, 15 (1) (2019), p. 29.

62 Neil Thomas, 'Xi Jinping's three balancing acts', *China File*, July 24 2023 <<https://www.chinafile.com/reporting-opinion/viewpoint/xi-jinpings-three-balancing-acts>>.

in jeopardy throughout 2022,⁶³ the outcomes of the October 2022 20th Party Congress demonstrated the further consolidation of his control and leadership of the CCP.⁶⁴ One expression of this was the selection of members of the Politburo Standing Committee (PBSC), the 24-member Politburo and the Central Military Commission. Of the seven members of the powerful PBSC following the 19th Congress, only three remained after the 20th Congress: Xi Jinping, Xi's 'ideologist' Wang Huning and former head of the Party's Central Commission for Discipline Inspection, Zhao Leiji. The four newcomers on the PBSC are all considered to be 'Xi's men' due to various levels of prior professional ties to the General Secretary.⁶⁵

Beyond the issue of personnel, the Party Congress also saw amendments to the Party constitution that incorporate some of Xi's key ideological precepts and policy priorities.⁶⁶ The amended Party constitution, for instance, now not only enshrines the 'two establishes' (i.e. to establish the status of Xi as the 'core' of the CCP and to establish the 'guiding' role of 'Xi Jinping Thought on Socialism with Chinese Characteristics for the New Era') but also hails Xi's drive for greater Party discipline and 'rigorous self-governance' as necessary to 'forge' the 'good steel' required for the Party and country to face the 'situation of unparalleled complexity' and 'fight of unparalleled graveness... in promoting reform, development, and stability'.⁶⁷ The 20th Congress underscored that Xi has, if not eliminated, at least tamped down any remaining 'factionalism', consolidated his authority as the ideological fountainhead of the Party, and has had his vision and leadership for the foreseeable future endorsed.

Xi's ability to balance economic growth and security, however, is less straightforward. Indeed, the 20th Party Congress demonstrated the continued uneasy balance between these twin imperatives under Xi's tenure. The quest for security – both in a domestic and international context – has been a defining feature of Xi's tenure but at the 20th Congress he was more explicit in asserting the links between the 'political security' of the CCP, domestic 'stability' and the achievement of 'national rejuvenation'. One interpretation of this is to see it as Xi's response to adverse domestic and international developments such as the ongoing economic and social costs of responding to the COVID-19 pandemic and the effects of the sanctions, export controls, and 'decoupling' policies pursued by both the Trump and Biden administrations.⁶⁸ Another view is that Xi's emphasis on the 'struggle' for security is primarily political, as it permits Xi to justify to the Party the need for him to remain at the helm at a time of such uncertainty.⁶⁹

'Development' nonetheless formally remains a priority after the 20th Congress. The way it will be pursued demonstrates the embedding of the political economy of 'strategic competition'. There have been clear signs since the onset of the 'trade war' with the US in 2018 and the adoption of the strategy of 'dual circulation' in May 2020 of the major directions that the PRC's economic policies will take including: the revitalisation of state-owned enterprises; reinvigoration of state-led industrial policy (including picking of 'national champions' in key sectors of the economy); an emphasis on expanding domestic demand; a focus on

63 See Bloomberg News, 'China's premier says term ending as questions over Xi future remain', *Bloomberg*, March 11 2022 <<https://www.bloomberg.com/news/articles/2022-03-11/china-s-li-says-tenure-ending-as-questions-over-xi-future-remain#xj4y7vzkg>>; and Ian Williams, 'Is Xi Jinping losing his grip on power?', *The Spectator*, May 22 2022 <<https://spectator.com.au/2022/05/is-xi-jinping-losing-his-grip-on-power/>>.

64 See Jude Blanchette and Evan S. Medeiros, 'Xi Jinping's third term', *Survival* 64 (4) (2022), pp. 61-89; and Jacques De Lisle, 'Xi's gotta have it: China's 20th Party Congress was as expected, only more so', Foreign Policy Research Institute, October 27 2022 <<https://www.fpri.org/article/2022/10/xis-gotta-have-it-chinas-20th-party-congress-was-as-expected-only-more-so/>>. For the changes to the make-up of the CMC see Lyle J. Morris, 'What China's new Central Military Commission tells us about Xi's military strategy', Asia Society Policy Institute, October 27 2022 <<https://asiasociety.org/policy-institute/what-chinas-new-central-military-commission-tells-us-about-xis-military-strategy>>.

65 See Guoguang Wu, 'New faces, new factional dynamics: CCP leadership politics following the 20th Party Congress', *China Leadership Monitor*, December 2 2022 <<https://www.prcleader.org/post/new-faces-new-factional-dynamics-ccp-leadership-politics-following-the-20th-party-congress>>.

66 Xudong Zhang, Weihang Yang, Yue Huang and Sha Luo, 'Rang dangqi zai xin zhengcheng shang gaogao piaoyang – 'Zhongguo Gongchandang Zhangcheng (xiuzhengan) yanshengji' 让党旗在新征程上高高飘扬——《中国共产党章程（修正案）》诞生记 [Let the party flag fly high on this new journey – story of the birth of the Constitution of the Communist Party of China (Amendment)], *Xinhua*, October 26 2022 <http://www.news.cn/politics/2022-10/26/c_1129081944.htm>.

67 Xinhua, 'Full text of resolution on Party constitution amendment', *China.org*, October 22 2022 <http://www.china.org.cn/china/2022-10/22/content_78480763.htm>. For the meaning of the 'two establishes' see, David Bandurski, 'The two establishes', *China Media Project*, February 8 2022 <https://chinamediaproject.org/the_ccp_dictionary/two-establishes/>.

68 Austin Ramzy, 'Xi warns of 'dangerous storms' facing China', *New York Times*, October 15 2022 <<https://www.nytimes.com/live/2022/10/15/world/china-party-congress-xi-jinping>>.

69 Guoguang Wu, 'For Xi Jinping, the economy is no longer the priority', *Journal of Democracy*, October 2022, <<https://www.journalofdemocracy.org/for-xi-jinping-the-economy-is-no-longer-the-priority/>>.

promoting domestic innovation and technology development to reduce dependencies on the West; and trade diversification away from the US.⁷⁰

The thrust of this approach to development, as economist Alicia Garcia Herrero argues, is ‘about reducing dependence on imports and increasing self-sufficiency’, and ‘can be equated with a ‘hedged integration’ to protect the PRC economy from volatility from abroad, while still benefiting from selling in overseas markets’.⁷¹ The PRC’s continued investment in the BRI complements ‘dual circulation’ through its focus on industrial and infrastructure investments that will encourage the development of PRC-centric transport and trade linkages which facilitate PRC exports.⁷²

These trends were reaffirmed at a May 5 2023 meeting of the CCP’s Central Financial and Economic Affairs Commission, which asserted that the central goal of developing a ‘modern industrial system’ would be achieved through combining ‘the strategy of expanding domestic demand with the strategy of innovation-driven development’.⁷³ Only in this way could the PRC not only ensure ‘our future development’, but also attain ‘the strategic initiative in international competition’.⁷⁴

Some trade data suggests that the PRC may have succeeded to an extent in achieving some of its objectives such as diversification away from the US. Analysis of US export data from the Peterson Institute for International Economics notes that not only have US exports of manufactured goods, energy, and services to the PRC fallen since 2018, but they ‘are falling farther and farther behind foreign peers also selling into the Chinese market’.⁷⁵ The problem for the US in this scenario is that it appears to have been unable to persuade its allies to follow its lead and ‘decouple’ or ‘de-risk’ sufficiently from the PRC market. This, for example, is supported by recent developments in Sino-Australian trade relations, where Australian exports have rebounded to record highs with the removal of the PRC’s restrictions, despite Canberra’s commitment to the US alliance and concerns about PRC strategic intentions.⁷⁶

A PRC that succeeds in managing this new development model will have significant implications. Successful substitution of domestic production for imports, in particular, will mean that ‘China’s foreign partners might see much less of an increase in exports to China’, while successful development of domestic producers of intermediate and developed goods will compete for export markets with traditional suppliers of such goods (e.g. the US).⁷⁷

Finally, how the PRC will seek to achieve the balancing act of diplomatically competing against the US for global leadership while avoiding or mitigating the risk of deterioration in relations with other major powers also appears to be well set. The PRC’s strategy, as Director of the John L. Thornton China Center at the Brookings Institution, Ryan Hass, has noted, is relatively straightforward: ‘centering China’ and ‘decentering the United States’ in ‘international architecture’ while opportunistically ‘probing for soft spots’ in what it perceives as Washington’s ‘containment’ strategy.⁷⁸

70 See, e.g., Keyu Jin, *The New China Playbook* (New York: Viking, 2023), pp. 250–252; China Power Project Team, ‘Will the dual circulation strategy enable China to compete in a post-pandemic world?’, Center for Strategic and International Studies, November 15 2021 <<https://chinapower.csis.org/china-covid-dual-circulation-economic-strategy/>>; and Alicia Garcia Herrero, ‘What is behind China’s dual circulation strategy?’, *China Leadership Monitor*, September 2 2021 <<https://www.prclleader.org/post/what-is-behind-china-s-dual-circulation-strategy>>.

71 Alicia Garcia Herrero, ‘What is behind China’s dual circulation strategy?’, *China Leadership Monitor*, September 2 2021 <<https://www.prclleader.org/post/what-is-behind-china-s-dual-circulation-strategy>>.

72 *Ibid.* For a recent analysis of the progress of the Belt and Road Initiative (BRI) see Kevin P. Gallagher et al., *The BRI at Ten: Maximizing the Benefits and Minimizing the Risks of China’s Belt and Road Initiative*, Global Development Policy Center, Boston University, October 9 2023 <<https://www.bu.edu/gdp/files/2023/09/GCI-Report-BRI-10-FIN.pdf>>.

73 Xinhua, ‘Xi Jinping presided over the first meeting of the 20th Central Financial and Economic Commission’, *gov.cn*, May 5 2023 <https://www.gov.cn/yaowen/2023-05/05/content_5754275.htm>.

74 *Ibid.*

75 Chad P. Brown and Lilin Wang, ‘Five years into the trade war, China continues its slow decoupling from US exports’, Peterson Institute for International Economics, March 16 2023 <<https://www.piee.com/blogs/realtime-economics/five-years-trade-war-china-continues-its-slow-decoupling-us-exports>>.

76 Laure Le, ‘Australia’s exports to China hit record high as relations thaw’, *CNN Business*, May 5 2023 <<https://edition.cnn.com/2023/05/05/economy/australia-china-exports-record-intl-hnk/index.html>>.

77 Alicia Garcia Herrero, ‘What is behind China’s dual circulation strategy?’, *China Leadership Monitor*, September 1 2021 <<https://www.prclleader.org/post/what-is-behind-china-s-dual-circulation-strategy>>.

78 Ryan Hass, ‘China’s response to American-led ‘containment and suppression’’, *China Leadership Monitor*, August 29 2023 <<https://www.prclleader.org/post/china-s-response-to-american-led-containment-and-suppression>>.

PRC efforts in the former context (i.e. centring itself and de-centring the US) are now embodied in three interlinked initiatives: the Global Development Initiative (GDI), announced in September 2021; the Global Security Initiative (GSI), announced in April 2022; and the Global Civilization Initiative (GCI), announced in March 2023. Each of these has been pitched as alternatives to what Beijing argues are the inequitable economic, security and normative institutions and principles of the US-led order. The GDI, for example, juxtaposes the PRC's 'balanced, coordinated, and inclusive'⁷⁹ growth model to that promoted by the West and makes the case for a focus on the 'software' of development including 'knowledge transfer and capacity building'.⁸⁰ The GSI, in turn, makes the case for what Xi terms 'indivisible security'⁸¹ in contrast to the US pursuit of its own (or its allies') security through the use of security alliances and economic sanctions.⁸² Finally, the GCI contrasts the PRC's model of for developing a 'global network for inter-civilization dialogue' based on respect for civilizational difference and commitment to 'refrain from imposing their own values and models on others' to US-led efforts to impose 'universal' values on others.⁸³

Taken together, the three initiatives seek to leverage the developing world's sensitivities regarding the US-led order. But they also provide an illustration of the type of world order that Beijing would like to see: a world where state sovereignty and territorial integrity, non-interference in the internal affairs of states, and 'state-focused and state-defined values system' are paramount.⁸⁴ The emphasis on 'civilisations' is indicative of the PRC's desire to elevate 'states with linkages to ancient empires' such as itself and some of its current partners (e.g. Russia and Iran) as well as 'Global South countries China is courting', while 'deprivileging the voice of the United States as a relatively new and heterogeneous actor in 'civilizational' terms'.⁸⁵

Further development of these initiatives will also assist Beijing in targeting 'soft spots' in US-led efforts to constrain it. The focus on development, through vehicles such as BRI and the GDI, for instance, will position it well to increase its influence in key regions of the world such as the Pacific, the Middle East and Africa where the US has been largely absent or too piecemeal in its approach to development assistance.⁸⁶ Moreover, these initiatives will serve as complements to pre-existing efforts to elevate 'the importance of groupings in which it has membership and Washington does not', such as BRICS and the SCO.⁸⁷ Consistent with its economic approach of diversifying from trade with the US, the PRC's diplomatic posture is also trending toward a focus on offsetting poor relations with Washington by increasing diplomatic outreach to others. Data collated by Brookings Institution analyst Ryan Hass on the diplomatic meetings and travel of the PRC's top leaders since December 2022 demonstrates that 'China's top officials have focused on building relations

79 Ministry of Foreign Affairs of the People's Republic of China, 'Xi Jinping attends the general debate of the 76th Session of the United Nations General Assembly and delivers an important speech', September 22 2021 <https://www.fmprc.gov.cn/mfa_eng/wjb_663304/zjzg_663340/gjs_665170/gjsxw_665172/202109/t20210923_9580159.html>.

80 Anthea Mulakala, 'China's Global Development Initiative: Soft power play or serious commitment?', *DevPolicy Blog*, October 18 2022 <<https://devpolicy.org/chinas-gdi-soft-power-play-or-serious-commitment-20221018/>>.

81 What this term meant was subsequently explained in a 'concept paper' by the Ministry of Foreign Affairs which stated the security of 'one country should not come at the expense of that of others. We believe all countries are equal in terms of security interests. The legitimate and reasonable security concerns of all countries should be taken seriously and addressed properly, not persistently ignored or systematically challenged. Any country, while pursuing its own security, should take into account the reasonable security concerns of others'. See Ministry of Foreign Affairs of the People's Republic of China, 'The Global Security Initiative Concept Paper', February 21 2023 <https://www.fmprc.gov.cn/eng/wjbxw/202302/t20230221_11028348.html>. This, as Michael Schuman et al note, 'formally adopts the Kremlin's concept of 'indivisible security', with Chinese leaders joining Russian president Vladimir Putin in excusing the unlawful invasion of Ukraine by blaming the US-led NATO for committing the 'original sin' that led to the war'. See Michael Schuman, Jonathan Fulton and Tuvia Gering, 'How Beijing's newest global initiatives seek to remake the world order', Atlantic Council, June 21 2023 <<https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/how-beijings-newest-global-initiatives-seek-to-remake-the-world-order/>>.

82 Ministry of Foreign Affairs of the People's Republic of China, 'Xi Jinping delivers a keynote speech at the opening ceremony of the Boao Forum for Asia Annual Conference 2022', April 21 2022 <https://www.fmprc.gov.cn/eng/zxxx_662805/202204/t20220421_10671083.html>.

83 Xi Jinping, 'Full text of Xi Jinping's keynote address at the CPC in dialogue with world political parties high-level meeting', *Xinhua*, March 16 2023 <<https://english.news.cn/20230316/31e80d5da3cd48bea63694cee5156d47/c.html>>.

84 Michael Schuman, Jonathan Fulton and Tuvia Gering, 'How Beijing's newest global initiatives seek to remake the world order', Atlantic Council, June 21 2023 <<https://www.atlanticcouncil.org/in-depth-research-reports/issue-brief/how-beijings-newest-global-initiatives-seek-to-remake-the-world-order/>>.

85 R. Evan Ellis, 'The trouble with China's global civilization initiative', *The Diplomat*, June 1 2023 <<https://thediplomat.com/2023/06/the-trouble-with-chinas-global-civilization-initiative/>>.

86 Witness for example the successive failures of the Trump administration's 'Blue Dot Network' and Biden administration's 'Build Back Better World' initiative that were framed as responses to BRI. See Edward Ashbee, 'The Blue Dot Network, economic power, and China's Belt and Road Initiative', *Asian Affairs: An American Review*, 48 (2) (2021), pp. 133-149; and Justin Ahlman, 'Build Back Better dies... again', *American Prospect*, April 28 2022 <<https://prospect.org/politics/build-back-better-dies-again/>>.

87 Ryan Hass, 'China's response to American-led 'containment and suppression'', *China Leadership Monitor*, August 29 2023 <<https://www.prcleader.org/post/china-s-response-to-american-led-containment-and-suppression>>.

along their periphery and working to limit the damage to China's relations with Europe'.⁸⁸ These concerted efforts to bolster PRC claims to global leadership could be expected to pay dividends with a return of Donald Trump to the White House.

A resilient PRC that can demonstrate that it is rebounding from its COVID-19-induced economic and diplomatic travails can once more benefit from the 'shadow of the future' by reinforcing the perception that it, rather than the US, will likely be the ascendant power of the 21st century. Such an outcome for Australia – combined with the risks of a second Trump presidency noted above – presents a mixed picture. Economically, a rebounding PRC will be of benefit to Australia. This, however, will be balanced against the fact that a politically and economically resilient PRC will continue to be committed to the military posture and development of the capabilities necessary to achieve its 'local balancing' strategy in East Asia and the western Pacific in the face of declining US propensity to defend allies.

In this scenario, the existing misalignment between objectives, strategy and capabilities in Australian defence and strategic policy will become starkly evident. What capacity will Australia have to ensure the interests the DSR identified in the outer rings of the concentric circle model (i.e., protecting 'Australia's economic connection to our region and the world', contributing 'with our partners to the collective security of the Indo-Pacific' and contributing 'with our partners to the maintenance of the global rules-based order')? Absent American commitments, what role can Australia hope to play with the military capabilities we have, should the PRC undertake military action against Taiwan?

Additionally, the waning of American commitment to the region and the potentially rapidly growing costs to access to US military equipment and technology that may come with a second Trump administration, will make the 'guns *and* butter' straddle of Australian policy (i.e. relying on economic ties with Beijing to enable internal balancing) increasingly delicate. If the PRC succeeds in deepening trade and economic connectivity (and leverage) with the major economies of the Indo-Pacific (including Australia), substantial pressure may come from Beijing to privilege 'butter' over 'guns' (i.e. to choose economic relations with Beijing over the alliance with Washington) – in effect the reverse of the 'China choice' that we have made with AUKUS and the DSR.

The ugly: Retrenching America, retrenching PRC

This scenario would see US retrenchment under a second Trump administration (as detailed above) combined with a stagnation and retrenchment of PRC power in the face of major domestic and foreign policy challenges. This scenario presents Australia with a worst-case outcome: US retrenchment removes the central pillar of Australian defence and strategic policy, while PRC stagnation weakens the Australian economy and provides impetus for the PRC to jump through a closing window of opportunity to seize Taiwan.

In this scenario, a retrenching PRC would be the product of the failure of Xi's three-part balancing act noted in the previous section. Rather than successfully mediating the tensions between these imperatives (as in the 'resilient China' scenario above), in this scenario Xi and the Party privilege security above the economy, with significant negative consequences for not only the PRC's economy but also its domestic politics, foreign policy and standing in the world.

With respect to the first challenge of balancing economic growth with security, it is possible to discern in existing trends the possibility for negative outcomes. As noted above, a major policy direction after the October 2022 Party Congress has been the equal billing of security and economic imperatives. This is significant as since the start of the post-Mao 'reform and opening' era in 1978, the 'basic line' of the CCP has been to take 'economic construction' as the 'central task'.⁸⁹ This shift was also accompanied by the significant omission of two long-standing *tifa* (提法) – authoritative guidelines usually in the form of slogans – that have guided PRC foreign policy: 'peace and development is the theme of the times' and 'China's

⁸⁸ *Ibid.*

⁸⁹ See, for instance, Anthony Saich, *From Rebel to Ruler: One Hundred Years of the Chinese Communist Party* (Cambridge, MA; London: Harvard University Press, 2021).

development is in an important period of strategic opportunity'.⁹⁰ These *tifa* were replaced in Xi's report by the assertion that the PRC's environment was characterised by 'major changes unseen in a century' (百年未有之大变局), which mean that the PRC has 'entered a period of development in which strategic opportunities, risks, and challenges are *concurrent* and uncertainties and unforeseen factors are rising'.⁹¹

The trajectory of Xi's thought, Tanner Greer argues, suggests that he believes that the approach that the CCP 'used to secure its rule at home and achieve its objectives abroad in the period of opportunity is no longer sufficient' and that 'China must prepare itself for an insecure future'.⁹² From this perspective, the elevation of the 'struggle' for security in Xi's Party Congress report signals that 'the economy-centered era is over'⁹³ and that the Party now perceives security as the prerequisite for economic development.⁹⁴ This fundamental shift will have significant implications for both domestic and foreign policy.

In the domestic realm, the privileging of security would see the intensification of a number of pre-existing trends in the domains of both security and economic policy. In a security context, a PRC travelling this trajectory would intensify its efforts to maintain social 'stability' through traditional and technologically enabled surveillance methods⁹⁵ and expand the 'discipline inspection' beyond the Party⁹⁶ itself to become a tool of societal governance.⁹⁷ This desire for control will also extend into the domain of the economy in major ways. First, the drive to regulate and control major sectors of the economy, as has already occurred with the PRC's hi-tech sector,⁹⁸ including a focus on surveilling foreign companies and/or individuals for 'leaking' sensitive 'national security' related information, will continue.⁹⁹ Second, Xi will pursue the 'techno-nationalist' approach to industrial policy with renewed vigor to ensure the country's self-sufficiency in the major technologies of the 'fourth industrial revolution'. Third, the PRC will reinforce the key pillars of its 'state capitalist' model by increasing Party direction/control of state-owned enterprises, coordination of state and private sector economic actors, increasing subsidies for companies operating in what the state defines as 'strategic' sectors, and increasing restrictions on foreign companies within the PRC's domestic market.¹⁰⁰

These domestic security and economic trajectories will also pose problems for the PRC's domestic politics. Within the Party itself, Xi's success in consolidating his power, and also his stacking of elite bodies such as the PBSC with leaders closely aligned to him, may ironically set the stage for what Neil Thomas describes as 'sub-factional' rivalries that could exacerbate the stagnation of 'reform'.¹⁰¹ Xi has assured that there will be no opposition to himself and the political 'line' he has established for the Party by ensconcing loyalists. But these individual leaders nonetheless have incentives to 'maneuver their associates into lower-level positions in key institutions, including the General Office that manages Party business, the Organisation Department that oversees personnel, and economic agencies like the National Development and Reform Commission', to build their own influence with an eye to what happens after Xi departs the scene.¹⁰² Here, 'minor differences

90 For a detailed discussion of the significance of this shift in 'authoritative guidance' see Brock Erdahl and David Gitter, *Uncertain Times and Fading Opportunities: The Pessimistic CCP Perceptions Driving China's Foreign Policy and Its Preparations for the Threat of War*, Center for Advanced China Research, October 24 2022 <<https://www.ccpwatch.org/single-post/cacr-report-china-s-uncertain-times-and-fading-opportunities>>.

91 Xi Jinping, 'Full text of the report to the 20th National Congress of the Communist Party of China', *China Daily*, October 16 2022 <<https://global.chinadaily.com.cn/a/202210/25/WS6357e484a310fd2b29e7e7de.html>>. Author's emphasis.

92 Tanner Greer, 'China's peaceful slogans are replaced by dark thoughts', *Al-Arabiya*, March 2 2023, <<https://english.alarabiya.net/views/2023/03/02/China-s-peaceful-slogans-are-replaced-by-dark-thoughts>>.

93 Guoguang Wu, 'For Xi Jinping, the economy is no longer the priority', *Journal of Democracy*, October 2022 <<https://www.journalofdemocracy.org/for-xi-jinping-the-economy-is-no-longer-the-priority/>>.

94 Howard Wang, 'Security is a prerequisite for development': Consensus-building toward a new top priority in the Chinese Communist Party', *Journal of Contemporary China*, 32 (142) (2023), pp. 525-539.

95 See Josh Chin and Liza Lin, *Surveillance State: Inside China's Quest to Launch a New Era of Social Control* (New York: St. Martin's Press, 2022); and Kai Strittmatter, *We Have Been Harmonized: Life in China's Surveillance State* (New York: Harper, 2021).

96 See Carolin Kautz, 'Power struggle or strengthening the party: Perspectives on Xi Jinping's anticorruption campaign', *Journal of Chinese Political Science*, 25 (2020), pp. 501-511.

97 Christopher Carothers and Zhu Zhang, 'From corruption control to everything control: The widening use of inspections in Xi's China', *Journal of Contemporary China*, 32 (140) (2023), pp. 225-242.

98 Andrew Collier, *China's Technology War: Why Beijing Took Down its Tech Giants* (Singapore: Palgrave Macmillan, 2022).

99 Scott Livingstone, 'The Chinese Communist Party targets the private sector', Center for Strategic and International Studies, October 8 2020 <<https://www.csis.org/analysis/chinese-communist-party-targets-private-sector>>.

100 See Barry Naughton and Brianna Boland, *CCP Inc.: The Reshaping of China's State Capitalist System*, Center for Strategic and International Studies, January 31 2023 <<https://www.csis.org/analysis/ccp-inc-reshaping-chinas-state-capitalist-system>>.

101 Neil Thomas, 'Xi Jinping's three balancing acts', *China File*, July 24 2023 <<https://www.chinafile.com/reporting-opinion/viewpoint/xi-jinpings-three-balancing-acts>>.

102 *Ibid.*

in policy implementation or ideological emphasis' may 'serve as platforms and disguises for political battles between sub-factions', resulting in an increasingly fragmented policy process.¹⁰³

A post-Xi political elite more focused on intra-party positioning will be ill-prepared and disincentivised to meet the significant economic headwinds that the PRC will face because of Xi's doubling down on the state capitalist model of development. Indeed, much of the rationale for the 'techno-nationalist' approach to industrial policy, for instance, is based on the belief that 'leap-frogging' ahead of international competitors in the emerging technology sector will 'accelerate the construction of a new development pattern'¹⁰⁴ that will help overcome major structural challenges in the PRC economy stemming from its ageing population, high youth unemployment and rising income inequality.¹⁰⁵ There will be little incentive for the coterie of leaders that Xi has installed to question his apparent 'worship' of the 'magic power' of advanced technologies or his apparent faith in the Party's 'capacity to mobilise resources' to 'replace human creativity in furthering Chinese technological progress'.¹⁰⁶

Failure to grapple with such economic challenges will also have flow-on effects for the PRC's foreign policy. A continued tightening of regulatory pressure on foreign businesses operating in the PRC market, for instance, will likely see a further chill in foreign direct investment and stimulate capital flight from the PRC economy.¹⁰⁷ Reliance on the 'techno-nationalist' fix of industrial policy will not only 'require huge financial resources' to be directed into the emerging technologies sector, but decoupling from global sources of technology may also blunt prospects for domestic innovation.¹⁰⁸ The future for the suite of foreign policy and geo-economic initiatives launched under Xi - such as BRI and the more recent GDI, GSI and GCI - will also be jeopardised by a continued economic slowdown, weakening a major plank of the PRC's strategy to 'de-centre' US global leadership.

These trends - combined with the pessimistic turn evident in Xi's 20th Party Congress report - suggest that the PRC under this scenario faces what political scientist Michael Beckley has described as the dilemma of a 'peaking power'. A rising power that experiences 'severe and sustained economic growth slowdowns' will face 'the specter of future decline' and the 'fear that the country's moment in the sun is about to end, that its strategic window of opportunity is starting to close, and that its regime will not be able to deliver the goods that it has promised the people, can incite aggression and expansion that a nation more optimistic about its economic prospects might avoid'.¹⁰⁹ Moreover, Beckley maintains that authoritarian 'peaking powers' are more prone than democratic ones to pursue mercantilist economic strategies 'to push its way into foreign markets and obtain critical resources' and to aggressively seek to attain their strategic objectives *before* economic stagnation closes their window of opportunity to act.¹¹⁰

Under this scenario, then, Australia would be faced with an ambitious and anxious PRC seeking to attain 'national rejuvenation' before it is too late, simultaneous with a retrenching US under a second Trump administration. Under such conditions, the CCP leadership would come under increasing pressure to consolidate a sphere of international influence to hedge against the spectre of PRC power retrenchment. This latter aspect could take the form, for example, of overt expansion of PRC dominance over contiguous

103 *Ibid.*

104 Xinhua, Xi Jinping zhuchi zhao kai ershijie Zhongyang Caijing Weiyuanhui diyici huiyi qiangdiao jiakuai jianshe shiti jingji zhizhang de xiandaihua chanye tixi, yi renkou kaozhiliang fazhan zhizhang Zhongguoshi xiandaihua' 习近平主持召开二十届中央财经委员会第一次会议强调 加快建设以实体经济为支撑的现代化产业体系 以人口高质量发展支撑中国式现代化 [Xi Jinping presides over the first meeting of the 20th Central Financial and Economic Affairs Commission, emphasises accelerating the construction of a modern industrial system supported by the real economy, and a Chinese-style modernisation supported by the development of a high quality population], *XinhuaNet*, May 5 2023 <http://www.news.cn/politics/leaders/2023-05/05/c_1129592754.htm>.

105 For the structural challenges facing the Chinese economy see Ligang Song and Yixiao Zhou, 'Managing China's transition to a new phase of economic growth and development', in Ligang Song and Yixiao Zhou (eds.), *China's Transition to a New Phase of Development* (Canberra: ANU Press, 2022), pp. 1-23.

106 Guoguang Wu, 'For Xi Jinping, the economy is no longer the priority', *Journal of Democracy*, October 2022 <<https://www.journalofdemocracy.org/for-xi-jinping-the-economy-is-no-longer-the-priority/>>.

107 Milton Ezrati, 'More money is leaving China', *Forbes*, November 23 2023 <<https://www.forbes.com/sites/miltonezrati/2023/11/23/more-money-is-leaving-china/?sh=3f8005a33acf>>.

108 Alicia Garcia Herrero, 'What is behind China's dual circulation strategy?', *China Leadership Monitor*, September 1 2021 <<https://www.prcleader.org/post/what-is-behind-china-s-dual-circulation-strategy>>.

109 Michael Beckley, 'The peril of peaking powers: Economic slowdowns and implications for China's next decade', *International Security*, 48 (1) (2023), p. 9.

110 *Ibid.*, at pp. 25-30.

Southeast Asian states such as Laos and Cambodia (where the PRC has well-established influence) and greater risk-taking to embed PRC security and economic influence farther afield such as in the South Pacific or the Persian Gulf. Paradoxically, the risk of war posed by a retrenching PRC – whether by playing to domestic nationalism or risk-taking to establish regional satrapies – would thus become more rather than less likely in this scenario.

One troubling implication of the ‘peaking power’ thesis is that the PRC may feel compelled to jump through a window of declining opportunity to forcibly resolve the Taiwan issue in its favour. The strategic incentives for such an undertaking, as Chinese politics professor Suisheng Zhao argues, are already clear enough: ‘Taiwan is not just a ‘lost territory’ to be recovered, it is of critical geostrategic value for the PLA (People’s Liberation Army) to defend China’s expanded maritime interest and highly industrialised and urbanised eastern seaboard. Bringing Taiwan under Beijing’s wing would undermine Washington’s position in the Pacific and challenge its Asian allies to either come to terms with China or defend themselves without American help’.¹¹¹ The incentive would be magnified considerably should ‘peaking China’ coincide with retrenchment of the US under a second Trump administration. If the US abjured intervention, the PRC could thus hope to secure its position of predominance in East Asia in one – albeit highly risky – fell swoop, as it is doubtful that US allies in the region could mount any significant defence of Taiwan absent direct US military intervention.

Even without a ‘peaking’ PRC succumbing to the siren call of ‘reunification’, it could present other challenges to Australia’s immediate security environment. Canberra’s recent efforts to bolster influence in the Pacific would, in this scenario, present significant risks to Australia. The recently concluded ‘Australia-Tuvalu Falepili union’, for example, through which Canberra has provided a treaty-level defence guarantee to the island nation, raises questions about the ADF’s capability to deliver that in the event of a third-party security threat. Under the scenario of a retrenching PRC that is more risk-tolerant in the pursuit of establishing regional spheres of influence, combined with a reticent and retrenching US, how could Australia reasonably expect to defend Tuvalu? The Australian Strategic Policy Institute’s Euan Graham and Bec Shrimpton note that the ‘ADF would be operating far beyond the range of unrefuelled land-based air cover, and Funafuti’s 1500-metre runway is too short for high-performance aircraft. Even presupposing that Fiji, 1000 kilometres away, was available for staging purposes, contested ADF operations in the vicinity of Tuvalu would be a stretch without help from the US’.¹¹² How would the ADF, for instance, respond to PRC efforts to coerce Tuvalu through its ‘well-rehearsed grey-zone tactics – for example, encroaching on Tuvalu’s large exclusive economic zone’?¹¹³

In short, under this scenario (i.e. retrenching PRC, retrenching America), the credibility of such commitments would appear ripe for the testing by a risk-tolerant and ambitious Beijing. At the same time, economic headwinds would make it difficult for Australia to rely – as in the recent past – on PRC markets for its exports, thus undercutting the ‘guns *and* butter’ approach to the political economy of strategic competition. Coupled with a transactional second Trump presidency, Australia would face tough choices about security as well as prosperity amid a tense and potentially hostile regional environment.

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111 Suisheng Zhao, ‘Is Beijing’s long game on Taiwan about to end? Peaceful unification, brinkmanship, and military takeover’, *Journal of Contemporary China*, 32 (143) (2023), p. 722.

112 Euan Graham and Bec Shrimpton, ‘The defence and security implications of the Australia-Tuvalu treaty’, *The Strategist*, Australian Strategic Policy Institute, November 23 2023 <<https://www.aspiratelist.org.au/the-defence-and-security-implications-of-the-australia-tuvalu-treaty/>>.

113 *Ibid.*