

# To balance or to bandwagon? Adjusting to China's rise during Australia's Rudd–Gillard era

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**Abstract** This article examines Australian grand strategy in the context of China's rise during the period of Labor governments between 2007 and 2013. Australia's grand-strategic posture is treated as the dependent variable, plotted along a balancing-to-bandwagoning continuum. Australia remained within the hedging zone throughout, although there were discernible shifts in posture during the period. While momentum was building towards a more overt balancing posture during the Kevin Rudd era, the various balancing and bandwagoning 'signals' were more contradictory after Julia Gillard unseated Rudd 2010; in short, she stabilised Australia's grand-strategic posture, meaning it remains best characterized as 'dominance denial'.

**Keywords:** Australia; grand strategy; China's rise; balancing and bandwagoning.

## Introduction

China's impact on Australia has grown steadily in the twenty-first century, most obviously in the economic realm. China is now Australia's largest trading partner with two-way trade of \$125 billion in 2012, comprising 20.3 per cent of total trade, with a surplus in Australia's favour of \$32 billion. This trend seems likely to continue given that export growth in the 5-year period from 2008 to 2012 averaged a whopping 17.1 per cent per annum (DFAT 2013: 19). Yet as China's economy has grown, its military capabilities have also increased, with defence spending growing at an average rate of around 10 per cent per annum between 2001 and 2011, reaching about US\$166 billion in 2012. This still trailed the United States (US\$682 billion in

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2012) by a considerable margin, but China is now easily the biggest Asian military power (Japan and India spent US\$59 and US\$46 billion, respectively, in 2012: IISS 2013: 22; SIPRI 2013). And tensions between China and its neighbours are rising. Some argue a ‘Chinese Monroe Doctrine’ for Asian waters is emerging (Lind 2013), a troubling development considering that over half of Australia’s trade passes through these seas.

The implications of China’s rise for Australia remain the subject of intense controversy. One school of thought argues that Australia is (or will be soon) stuck on the horns of a dilemma. As Hugh White recently put it:

There is a problem with Australia’s vision of its future. On the one hand we assume China will just keep growing indefinitely, buying more and more [resources]. . . . On the other hand, we expect America to remain the strongest power in Asia. We will have a very nice future if both these things happen. The problem is that they cannot both happen at once (White 2010: 1).

Both sides of politics typically reject the need to make such a stark choice between security and prosperity (Kelly 2013; AAP 2013), including those governments led recently by Labor prime ministers Kevin Rudd (December 2007–June 2010<sup>1</sup>) and Julia Gillard (June 2010–June 2013). Yet there were some variations in how each played this ‘balancing act’ which deserve to be examined now that Labor has fallen from power.

The discussion below proceeds as follows. First, an explanation is offered for the deployment of a neoclassical realist paradigm to guide analysis; then the balancing-bandwagoning spectrum is examined; after that the analysis proper begins with consideration of the various structural and domestic independent variables which affected Australia’s foreign policy-making; and the conclusion offers a final determination on the dependent variable, namely, where Australia’s grand strategy should be placed on the balancing-bandwagoning spectrum during Rudd’s and Gillard’s tenures.

## **Part I – The theoretical framework**

### ***Neo-classical realism***

This paper examines Australia’s grand strategy in the context of China’s rise. For Basil Liddell Hart the role of grand strategy is to ‘co-ordinate and direct all the resources of a nation’ including economic, diplomatic, political and military means, toward ‘the achievement of its basic aims’ – typically security, prosperity and perhaps prestige (generally in that order of importance). Crucially, a grand strategy can be pursued in peacetime, unlike a strategy, which is a war-time pursuit (Hart 1967: 322; see also Gray 2007: 283). Indeed, the quintessentially successful grand strategy will achieve the state’s aims without the resort to war (or even much military effort).

An appropriate theoretical framework is therefore needed to guide the following analysis. Some of the Australian discourse about China's rise has deployed varieties of liberal theory, like neoliberal institutionalism, which privileges examination of the so-called 'regional multilateral architecture' (Phillips 2011); one study asks whether China will be 'pacified by trade' (Reilly 2012); while another uses democratic peace theory to explore the 'natural limits' of Australia–China ties (Yu and Xiong 2011). Post-positivist perspectives remain rare (Wilkins 2010).

But most studies of China's rise deploy realist logic, sometimes pitting distinct traditions against one another – like power transition versus alliance theory (Tow 2012) – or they mix the varieties. For example, Hugh White's influential 'power shift' thesis (White 2010, 2012) argues that the shift in USA–China relative power will lead to hegemonic conflict (power transition theory); non-material variables, like America's 'soft power', are ignored (neorealism); the possibility of regional organisations managing conflict is dismissed (offensive realism); and finally, White argues that Australia faces only three realistic grand-strategic choices, namely, to capitulate and bandwagon with China, to balance aggressively – with or without America – or to persuade the USA, China, Japan and India to form a Concert of Asia (his preference).

Neorealists believe that the distribution of power between states determines the structure of the international system, which enables or constrains states' behaviour (Waltz 1979). But neoclassical realists argue that to focus too tightly on the structural variable is potentially misleading, even crude: they argue that *intervening variables* at the domestic level of analysis affect the interpretation or meaning of states' power, and/or that domestic variables limit the deployment of, or enhance the effect of, states' 'raw' power (Rose 1998). Four reasons are advanced for deploying a neoclassical realist paradigm herein: first, the investigation concerns how a secondary state – Australia – is reacting to significant power shifts in its region, suggesting a power-based paradigm is suitable; second, most of the Australian debate about China's rise takes place within the realist paradigm, so it seems reasonable to remain in this 'idiom', so to speak; third, Kenneth Waltz himself readily admits neorealism's unsuitability for foreign policy analysis, the matter at hand in this investigation; and finally, domestic-level variables are important during the period under consideration, as is shown below, so of the various 'realisms' available, neoclassical realism is the most suitable.

It is readily conceded that alternative paradigms may be more appropriate when examining other realms of Australian foreign policy. For example, understanding differences in Australia's and China's reactions to overseas humanitarian crises may be better examined from a liberal perspective, while understanding Australia's response to boat-borne asylum seekers may call for a securitisation paradigm. Nevertheless, this analysis focuses on the sorts of independent variables familiar to neoclassical realists. But before they can be introduced examination of the dependent

variable – Australia’s grand-strategic posture – is necessary, with reference to the classic realist balancing-bandwagoning debate.

### ***Balancing and bandwagoning***

It is usually conceded that most states, most of the time, cannot easily be characterised as ‘pure’ balancers or bandwagoners (Walt 1987: 28–22), and whatever one thinks about the prevalence of such across the full sweep of history, it is commonly accepted that few contemporary regional states’ responses to China’s rise qualify as pure examples of balancing or bandwagoning (He 2012: 55; Acharya 2003/4: 149–69; Kang 2007). Some disagreement about the appropriate terminology remains: for example, Robert Ross uses the term balancing but favours ‘accommodation’ instead of bandwagoning (Ross 2006: 363). In discussions of America’s China-policy, as opposed to general theory, a distinction between containment and engagement is often drawn (Shambaugh 1996), along with terms like ‘conengagement’ (Goldstein 2005: 12) to describe mixed policies.

This study breaks the balancing/bandwagoning continuum into three rough ‘zones’ (see Figure 1). Hedging is in the middle, the balancing zone is on the left, implying rejection of China’s power and efforts to thwart its interests, and the bandwagoning zone is to the right, implying acceptance of Chinese power and acquiescence to its interests. Within each of these two latter zones more-extreme and less-extreme positions are discernible. *Outright war* is on the far left of the balancing zone, *containment* is in the middle (implying full-spectrum efforts to undermine China), while *hard-balancing*, to the right, implies hostile-alliance-building and arms-racing – the sending of clear, unambiguous signals – but short of containment’s single-minded hostility. At the other end of the continuum, in the bandwagoning zone, *capitulation* is to the far-right with *dependence* in the centre (implying unambiguous formal alliance with and routine support for China). *Allied alignment* is closer to the hedging zone, implying a state typically construes its interests similarly to China’s, is closely integrated economically, and enters into a formal alliance. It cannot be absolutely counted on, yet it typically defers to and won’t actively oppose China. But none of these positions is particularly relevant in the context of this paper.

Balancing Zone			Hedging	Bandwagoning Zone		
Outright War	Containment	Hard Balancing	See Fig. 2	Allied Alignment	Dependence	Capitulation

*Figure 1* The balancing-bandwagoning continuum (overview).

### ***The hedging zone and its 'sub-zones'***

This article is primarily concerned with the central hedging zone, because from 2007 to 2013 Australia remained squarely within it. This has not always been the case: indeed, during most of the Cold War Australia was unambiguously in the balancing zone; Australia fought China directly in Korea, and then spent most of the 1950s and 1960s assiduously containing Beijing. Australia only shifted into the hedging zone – and not rapidly, contrary to popular perceptions (Goldsworthy 2001: 329–38) – after Gough Whitlam established diplomatic relations with China in 1972. It has never been in the bandwagoning zone, and it probably won't ever be short of a democratic transformation in China or complete abandonment by America (He 2012: 61; Yu and Xiong 2011).

Some confusion also remains about the proper terminology to describe the central hedging zone. For example David Kang treats hedging as one intermediate point, towards the balancing end, and accommodation as another intermediate point, towards the bandwagoning end, with no term to describe the central zone per se (Kang 2007: 53). Nevertheless, the literature about regional responses to China's rise is converging towards a consensus (Ciorciari 2009; Chen and Yang 2013), namely, that hedging is a *zone* in the *middle* of the balancing-bandwagoning continuum. The same is happening in the literature about Australia's response to a rising China (Maddougall 2010: 3; Manicom and O'Neil 2010: 27; Dittmer 2012).

The central hedging zone needs to be further divided to achieve a more nuanced understanding of Australia's grand-strategic posture (see Figure 2). Cheng-Chwee Kuik's work on Southeast Asian states' responses to China's rise is widely cited and his definition, derived from the banking and finance literature, is a good one. Hedging is

behaviour in which a country seeks to offset risks by pursuing multiple policy options that are intended to produce mutually counteracting effects, under the situation of high-uncertainties and high-stakes. (Kuik 2008: 168)

Therefore, hedgers simultaneously perceive that substantial benefits can be gained by engaging with China economically, while they also fear the potential for China to become politically and/or militarily overbearing. They want to maximise current opportunities while also insuring against possible future threats, implying the pursuit of a *contradictory* and *fluid* mix of policies: contradictory because steady re-armament may be taking place – perhaps (roughly) 'keeping pace' with China's military rise – while diplomatic ties are being upgraded; fluid because the hedger continually adjusts its policies, warily watching for signs of aggression but also looking for trade opportunities. Evidence for this sort of behaviour on Australia's part is plentiful.

Balancing Zone	'Sub-Zones' in the Hedging Zone					Bandwagoning Zone
	Risk Contingency Options		Return-Maximising Options			
See Fig. 1	Soft Balancing	Dominance Denial	Economic Pragmatism	Binding Engagement	Limited Bandwagoning	See Fig. 1

Figure 2 The hedging zone continuum (detailed).

Kuik divides the hedging zone into five 'sub-zones'. The three on the right end of the hedging zone – closest to the bandwagoning zone – are called 'return-maximising options'. They include: 'economic pragmatism' in the dead-centre of the balancing-bandwagoning continuum, implying enthusiastic trading and relative openness to Chinese FDI, but strict political and military neutrality; 'binding engagement' means engaging China and encouraging it to participate in regional institutions (i.e. to 'socialise' it); and 'limited bandwagoning' means a state may regularly align with China, across multiple issues, when it perceives its interests to converge, although it will studiously avoid subordinating itself (i.e. it won't play client to China's patron: Kuik 2008: 165–8). But the evidence explored below shows these sub-zones are not especially relevant in the context of this analysis.

Instead, the other two hedging sub-zones – the 'risk contingency options' – are the most relevant. The furthest-left, nearest the balancing zone, is *soft balancing* (Kuik 2008: 101–71; Maccougall 2010: 4; 27; Goh 2007: 132). A soft balancer primarily balances in the political and diplomatic realms, especially by forging closer links with the regional hegemon (i.e. the USA), and also by forging links with other regional states interested in checking China. Military balancing is restrained, although it still 'sends the signal' that, if pressed, resistance to China is possible. Kuik claims soft balancing efforts will aim to cope with 'diffuse' threats as opposed to specific threats, implying gradual, not rapid, rises in defence budgets. Economically, incoming Foreign Direct Investment (FDI) is watched warily, with multiple 'sensitive sectors' beyond the strictly 'national defence' sectors – like key export industries, food production, etc. – being placed strictly off-limits. Nevertheless, trade links are pursued.

On balance, Japan is a soft-balancer. Perhaps the recent sharp rise in tensions over the East China Sea has prompted a move towards the balancing zone – specifically, toward the 'hard balancing' sub-zone – because Japan has ramped up the pace of its submarine production, formally shifted its strategic posture southward, and is creating amphibious assault units,

suggesting it perceives specific threats from China. Time will tell if this trend continues.

Australia, however, was not soft-balancing in 2007 when John Howard's conservative government was replaced by Labor. Instead, Australia started the 2007–2013 period squarely in the next-right sub-zone, closer to the hedging zone's centre, namely, *dominance denial*. States practising this variety of hedging obviously pursue a more contradictory set of policies than soft-balancers; balancing strategies still outweigh bandwagoning policies, but not overwhelmingly so.

This stance is characterised most notably by political-diplomatic balancing designed to ensure other great powers – the United States in particular – remain 'in' the region, and it is also characterised by efforts to maintain a regional diplomatic 'united front' against China when the latter seems overly assertive. Howard's Australia obviously practised dominance denial in the years prior to 2007 by conspicuously supporting the Americans' major military adventures – in Iraq and Afghanistan – and their regional diplomatic efforts. For example, Australia enthusiastically signed the Trilateral Security Dialogue with Japan, and (more cautiously) supported the effort to extend this to a quadrilateral pact by including India.

Militarily, Howard-era Australia had been rearming steadily since the 1999 East Timor operation revealed serious shortcomings in readiness and force-structure, and in response to the demands of the War on Terror. It was doing so without any real sense of desperation – so, relatively diffusely – or at least seemingly not in response to specific perceived threats from China (although the 2000 defence white paper was drafted with an appreciation that China's rise may become destabilising 'down the track': White 2007).

Economically, dominance denial is similar to the soft-balancing position. Trade is vigorously pursued, and Australia–China trade was growing fast (free trade negotiations had also begun in 2005). Dominance deniers tend to encourage FDI more than a soft-balancer would be comfortable with, although some sectors remain closed (i.e. agriculture before 2007: FINSIA 2014) and 'national security' objections may also be invoked (although Howard did not notably block Chinese FDI in this way).

## **Part II – Assessing Australia's grand strategy 2007–2013**

Variation in Australia's grand-strategic posture between the Rudd and the Gillard eras is plotted below along the balancing/bandwagoning continuum, within the hedging zone discussed above. China's rise and American regional strategic primacy are treated as 'deep' structural variables, while China's relatively assertive, even (allegedly) aggressive behaviour from about 2009 and 2010, and America's 'pivot to Asia' which began taking shape during 2011, are both treated as 'contingent' structural variables.

Neoclassical realism assumes that these structural pressures (and opportunities) are mediated through domestic-level intervening variables. Ross believes to fully understand states' responses to China's rise requires consideration of a full spectrum of variables across economic, military and socio-political dimensions (2006: 367–8). Accordingly, this paper considers: negative socio-political perceptions of China; interdepartmental rivalries; institutional (in)capacity; the political imperative of returning the budget to surplus; consistent, strong public support for ANZUS; controversies generated by Chinese FDI; and internal Labor Party dynamics. Importantly, these variables are not chosen from some sort of 'mandatory neoclassical realist checklist' that must be strictly adhered to; instead, they are relevant in the context of *Australian* grand-strategy-making during the 2007–2013 era.

### ***Structural variables***

Two 'deep' structural variables are especially relevant in this study. First, China's power has increased spectacularly in recent decades and it weathered the Global Financial Crisis (GFC) much better than developed economies (although the means it employed – a massive stimulus programme – may foreshadow future problems: Woo 2010). This deep structural condition is particularly relevant to this paper because a significant degree of Australian economic dependency on China has emerged. Second, the United States remains the most powerful state internationally, especially militarily, and despite China's efforts to catch up the Americans retain strategic dominance in Australia's region. This deep structural condition is also especially significant in the context of this paper given the longstanding and close ANZUS alliance, which creates a substantial degree of security dependency despite the ostensible Australian commitment to defence self-reliance.<sup>2</sup> There obviously is, at minimum, the *potential* for tension between these two deep structural variables, hence Hugh White's insistence that Australia will be 'forced to choose' between prosperity and security at some point.

The first contingent structural variable is China's more assertive recent behaviour. It is commonly alleged that China became more 'aggressive', 'bullying', 'arrogant' or 'abrasive' in 2009 and 2010 (Shambaugh 2013: 33, 43, 58, 99; Goldstein 2013: 264–8). Various incidents are commonly cited as evidence, including: China's obstructive behaviour at the 2009 Copenhagen climate change summit; its angry reaction to American arms sales to Taiwan and the Dalai Lama's visit to Washington (both in 2009); its declaration in March 2010 that the South China Sea is a 'core interest' and the subsequent hectoring of ASEAN interlocutors in July (the foreign minister allegedly said 'China is a big country and other countries are small countries, and that's just a fact you'll need to learn to live with': Pomfret 2010);



its strident response to Japan's arrest of a Chinese fisherman, including a rare-earth export ban and anti-Japanese rioting in China; its failure to chastise North Korea's sinking of South Korea's corvette, the *Cheonan*, or the shelling of Yeonpyeong Island; and the furious reaction to Chinese dissident Lui Xiaobo winning the Nobel Peace Prize.

A number of explanations – some complementary, others contradictory – for this allegedly 'nasty turn' are typically advanced, including: that over-estimation of the speed of American decline during the GFC caused a bout of 'premature triumphalism' in China; American strategic moves in Asia caused a 'reactive insecurity' crisis in the Chinese psyche; Beijing used foreign adventurism to distract attention from steadily growing domestic turmoil; and that elements of China's vast bureaucracy momentarily slipped Beijing's leash to pursue their own agendas (Scobell and Harold 2013: 112–3). Even the 2008 Olympics are sometimes (confusingly) blamed.<sup>3</sup>

Alistair Iain Johnston's statistical analyses of English-language news articles, blogs and academic books showed a startling spike in the 2009–2011 period of references to China recently becoming assertive (2013: 10–12). Yet he argues that these claims are overblown, especially given, as he puts it, 'the tendency of analysis to select on the dependent variable' (i.e. scholars and pundits focused too-readily on aggressive acts and ignored conciliatory gestures). Still, perceptions can matter as much – sometimes more – than 'reality' in international politics (Jervis 1976). Certainly the perception in Australia was that China had become more threatening in 2009 and 2010. This contingent structural variable affected several domestic-level variables and led to Australia, under Kevin Rudd, shifting its grand strategy towards balancing (but not into the balancing *zone per se*).

The other important contingent structural variable to consider is the so-called American 'pivot to Asia'. Before 2011 some felt Washington's pre-occupation with the War on Terror meant it had 'dropped the ball', neglecting allies in Asia (Ba 2009). The perception of increased Chinese assertiveness obviously was in part – indeed, probably 'in large part' (Kuik et al. 2012: 321–6) – a cause of the pivot, although other factors were relevant too. For example, then-US Secretary of State Clinton argued for deeper engagement with the most economically dynamic region in the world, especially after the GFC (Clinton 2011: 57). Osama bin Laden's death in 2011 and the subsequent withdrawal from Iraq (and steady force-reductions in Afghanistan) provided both a psychological feeling that the War on Terror was ending, and it also freed up resources. Some also claim that America's 'fracking revolution' means strategic interests in the Middle East are less pressing, enabling further reallocation of resources (Hanson 2013).

The pivot was formalised in January 2012 (US DoD 2012). Broad conceptual elements include: enhancing existing alliances and forging new 'partnerships' (i.e. with Vietnam); 'investing in a long-term strategic

partnership with India'; stationing 60 per cent of US Navy assets in the Pacific, compared to the traditional 50:50 Pacific/Atlantic split; and making clear that 'access to and use of the global commons' is non-negotiable, a not-so-subtle rebuff to China's South China Sea claims. Concrete policies include: upgrading America's presence in regional multilateral forums; enhancing bases on Guam and in the Marianas; plans to base additional littoral combat ships in Singapore; more regular US Air Force visits to Thailand, India and Singapore; and assisting Japan's efforts to create amphibious assault units. ANZUS was also upgraded, meaning this structural factor created an *opportunity* for Australia, during Gillard's tenure, to pursue closer ties with America (discussed below).

### ***Domestic-level variables***

Neoclassical realist logic guides the following analysis in that the structural pressures or opportunities discussed immediately above are assumed to be *mediated through* or 'given meaning' by domestic-level variables. Actual foreign policy-making is therefore made in response to *these* latter determinations, after the 'raw structural data' has been 'processed' domestically, so to speak.

Consider the first domestic-level variable, Australian reactions to bilateral socio-political tensions. These were relatively high during the Rudd-era, when China was (allegedly) acting assertively. The problems arguably began in early 2008 when Kevin Rudd spoke as a 'zhengyou' (i.e. 'true and honest friend') while visiting Beijing (Rudd 2008). But the advice, delivered in Mandarin, chided Beijing about human rights in Tibet. This played very well domestically, but it also upset the Chinese. China's response initially remained relatively muted, but other events soon inflamed relations, including the seemingly arbitrary arrests by China of naturalised Australian citizens and heavy-handed treatment of Australian-born ethnic Chinese, who are sometimes treated as Chinese citizens in legal disputes (Fitzgerald 2013: 42). Rudd was accused of cowardice (Sheridan 2010a), and China's crackdown on minorities also generated plenty of criticism (He 2012: 61).

The most incendiary example of bilateral socio-political tension followed the Melbourne Film Festival's 2009 invitation to a Uighur activist, Rabiya Kadeer, to screen a film critical of the Chinese government. China reacted furiously, first cancelling Vice-Minister He Yafei's visit, and when Canberra refused to order the Festival to cancel the screening, a Chinese Embassy staffer phoned and threatened the Festival's director. Later, several ethnic-Chinese film directors withdrew their films under threat of life-bans from China. Finally, the Festival's website was brought down by Chinese hackers. The Australian media, in turn, also reacted sharply with headlines like 'Don't Kowtow to Beijing Bully' (Sheridan 2009).

The frequency of these sorts of incidents dropped off during the Gillard era, partly because China became noticeably more restrained. For example, Gillard visited Japan first (contra Rudd in 2008) on her first North Asia trip in April 2011. She signed defence cooperation agreements in Tokyo which China chose to ignore. But Gillard was also more circumspect than Rudd: while in Beijing she only raised human rights in private talks with Chinese leaders, and dodged media questions on such matters. China later became more forthcoming on justice issues: after Gillard lobbied hard and criticised China repeatedly in 2011 China relented in 2012 by allowing regular consular access to several jailed Australians (Curley and Moores 2011: 603–605). Perhaps China appreciated that Gillard’s human rights critique was focused on individual Australian citizens rather than pitched at a general, systemic level.

Still, polling data demonstrates China’s conciliatory efforts had only a limited effect: those believing China was *unlikely* to pose a military threat remained higher (54 per cent) than those who felt it was *likely* (42 per cent) in 2013. But the 2010 figures – at the height of China’s assertiveness – aren’t very different (52 unlikely, 46 likely), while the ‘warmth thermometer’ remained stuck at 54 °C (so, barely friendly: Hanson 2010, 2013). Clearly China’s rise, when mediated through a political culture that values freedom of expression, democracy and the rule of law (i.e. Australia’s) excites consistently negative and occasionally hysterical reactions. Even when bilateral relations thaw Australians feel ‘distant’ at best towards autocratic China. This variable suggests public opinion supported more balancing under Rudd, and the situation was reversed only very marginally under Gillard.

Regarding the second domestic-level variable, interdepartmental rivalries, the Department of Defence (DoD) clashed with the Office of National Assessments (ONA) and the Defence Intelligence Organisation (DIO) over the drafting of the 2009 Defence White Paper (2009 DWP). The intelligence agencies felt China’s steady military build-up was, generally speaking, ‘reasonable’: it wanted to secure ever-growing quantities of resources; and, from China’s perspective, the ring of US bases and allies in the region seemed threatening. China also faced a daunting range of internal problems and it understood its rise had depended on the open world trade system underwritten by America. It would be only rational, then, for China to avoid shooting itself in the foot, although ONA’s director, Peter Varghese (2007), acknowledged it would readily use force in certain scenarios (e.g. to prevent Taiwan’s independence).

The DoD adopted a much more alarmist view: first, it argued that as a state’s power grows, so does its appetite; second, it noted that historically, fast-rising powers have tended to spark hegemonic wars; finally, it found that Chinese strategic culture valued grand-strategic deception – Deng Xiaoping himself had counselled China to ‘hide its capabilities and bide its time’, after all. The DoD’s position won the day with Rudd, as passages in

the white paper illustrate: ‘shows of force by rising powers are likely to become more common as their military capabilities grow’; and ‘there is likely to be a question in the minds of regional states about the long-term strategic purpose of [China’s] force development plans, particularly as the modernisation appears potentially to be beyond . . . [that] . . . required for a conflict over Taiwan’ (Aust. DoD 2009: 22). These relatively alarmist grand-strategic premises underpinned the announcement of a major Australian rearmament programme dominated by additional naval and air assets most useful against a hostile China (i.e. doubling the submarine force: Aust. DoD 2009: 70).

China reacted angrily. The response behind closed doors was reportedly ‘incandescent’ (Leaver and Kelton 2010: 263) and public statements were not far behind. Eighteen months later the WikiLeaks scandal confirmed the extent to which Rudd accepted the DoD’s assessment. In a conversation with Hillary Clinton in March 2009 – just weeks before the white paper’s release – Rudd described himself as a ‘brutal realist’ when it came to China, arguing that the democracies in Asia should be prepared to ‘deploy force’ if ‘everything went wrong’, and noting that Beijing was ‘dangerously paranoid’ about threats to its ‘absolutist rule’ (Sheridan 2010b). These leaks also showed that Rudd, after his hastily released Asia-Pacific Community idea had been brusquely rejected by China (and most other regional states), had convinced Clinton that the United States should join the East Asia Summit lest it become dominated by China (AAP 2010). This effort to ensure America remained deeply involved in the regional multilateral architecture, explicitly to counter China, and the tone of and the rearmament programme outlined in the 2009 DWP, provide powerful evidence for Rudd’s Australia shifting towards the balancing end of the continuum.

But the 2013 Defence White Paper (2013 DWP) was also released during the period under review, in May 2013, soon after a foreign affairs white paper, *Australia in the Asian Century*, was released (in October 2012) and a National Security Strategy (NSS) in January 2013. Gillard deliberately reverted to a more traditional drafting process for the 2013 DWP compared to Rudd’s chaotic ‘micro-management’, interventionist style while the 2009 DWP was being prepared (Jennings 2013: 10). Her ‘hands off’ approach placed the National Security Committee of Cabinet more firmly in charge (Dupont 2013), muting the still simmering tension between the DoD and ONA/DIO, involving the Department of Foreign Affairs and Trade more, and generally ensuring a wider range of ministerial inputs.

The policy-documents released under Gillard’s stewardship deserve careful analysis. The first released, the *Australia in the Asian Century* white paper, notably ‘toned down’ discussion of China’s rise:

The United States will remain the most powerful strategic actor in Asia for the foreseeable future. But the economic growth and broader international interests of Asia's large powers, especially China and India, are changing the established strategic order. Rising national wealth is allowing states to modernise their defence forces. (PM&C 2012: 13)

No longer is China singled out for special treatment – it is paired with India – and similar language was used in the NSS: '[c]ommensurate with its size and interests, China is playing an increasingly active role in regional affairs and multilateral forums and is building a significant military capability' (PM&C 2013: 27), suggesting China's military build-up is 'what one might expect', in marked contrast to the 2009 DWP's accusation that it was 'beyond that required'. The language used in the 2013 DWP was also similar, although more nuanced:

Between 2000 and 2013, China's defence spending increased by over 140 per cent. . . . But. . . [this] needs to be kept in perspective. In 2011, the United States retained by far the largest share of world defence spending (41 per cent). . . . Some [US-China] competition is inevitable, but both seek stability and prosperity, not conflict. (Aust. DoD 2013: 10)

And the most important statements are:

Australia welcomes China's rise . . . China's continued economic growth has been a positive contributor to the econom[y] of Australia . . . . The Government does not believe that Australia must choose between its longstanding Alliance with the United States and its expanding relationship with China . . . . China's defence capabilities are growing and its military is modernising, as a natural and legitimate outcome of its economic growth. (Aust. DoD 2013: 11)

These words in the 2013 DWP suggest Gillard toned down the balancing tendencies evident during Rudd's tenure. It must be conceded immediately that none of the major weapons acquisitions outlined in the 2009 DWP were cancelled: instead, they were *delayed*, an important qualification. Nevertheless, one thing seems clear: while DoD seemingly 'had Rudd's ear' to a substantial extent, its relative influence declined under Gillard. The much less confrontational tone adopted in the three policy documents released during her tenure reflects this shift in inter-departmental dynamics.

The third domestic-level variable concerns institutional incapacities at the DoD. Put colloquially, the DoD's eyes were too big for its stomach

because after it had succeeded in securing a major rearmament programme, outlined in the 2009 DWP, the department then ‘choked on it’. To be fair, the GFC created significant uncertainties as the Australian dollar crashed 31 per cent relative to the greenback in 2009, then soared to above parity in 2012, complicating forward planning (Thomson 2011a: 3). Nevertheless, the DoD’s procurement processes have become the subject of sustained criticism (Thomson 2011b; Ergas and Thomson 2011; Ablong 2012). Of 30 projects expected to get ‘first pass’ approval within eighteen months of the 2009 DWP’s release in March 2009, only 10 had passed by May 2011 (Thomson 2011a: 103–106). And despite much talk in 2009 of ‘fundamental reforms’ to create an ‘output-driven internal budgeting model’, nothing had been done by 2013. Mark Thomson likened the backlog of stalled projects to an ‘ever growing bow wave’ swamping the DoD’s capacity to deliver anything on time (Thomson 2013: 15, 130). In 2010 DoD handed back \$1.1 billion (5 per cent of its budget) which it simply couldn’t spend, and in 2011 this rose to \$1.6 billion (about 7 per cent: Thomson 2012: 114–5). This was one reason for deep cuts in 2012 (see below), but regarding the variable under discussion – institutional incapacity – the implication is clear: while the 2009 DWP signalled an *intent* to move Australia towards balancing, the DoD struggled to *actually spend* the money necessary to fully realise this sort of grand-strategic shift.

The fourth domestic-level variable was domestic political pressure to return the federal budget to surplus (an effort which ultimately failed), and the fifth was the strong, decades-long support for ANZUS, which contributed to an upgrading of the ANZUS alliance. They are dealt with together because they were ‘possibly related’: the timing of the budget cuts and the alliance upgrade seemed eerily coincidental (see below).

Regarding the defence spending cuts, those in 2010 and 2011 seemed motivated at least in part by the DoD’s inability to spend all of its money; but the much deeper cuts – around 10 per cent – in the May 2012 Federal Budget were clearly motivated by a desire to return a budget surplus. Several relatively minor planned acquisitions were scrapped, equipment was mothballed (i.e. the Abrams tanks), while some larger projects – most notably the submarines and the Joint Strike Fighters – were delayed. Defence spending fell to 1.56 per cent of GDP, the lowest since 1938 (Thomson 2012: vi–viii).

These cuts came six months after the ANZUS alliance had been significantly strengthened. President Barack Obama visited Australia in November 2011 and announced that up to 2,500 US Marines would rotate through Darwin for ‘at least six months of the year’ along with more regular US Air Force visits to nearby RAAF Tindal and more US Navy visits to HMAS Stirling near Perth. Later, rumours surfaced that US drones may operate from Australia’s Cocos Islands, and that HMAS Stirling may get an enormous new dock capable of servicing aircraft carriers (Nicholson 2012). These latter developments, if they go ahead, are especially

significant. They would enhance America's power projection into the India Ocean and across the 'choke points' of the Sunda, Lombok and, most crucially, the Malacca Straits, through which much of China's energy supplies travel. Blocking these would be a priority in a shooting war (Ross 2009: 70). The alliance upgrade therefore constituted a significant balancing signal by Gillard's government.

A neat explanation of both the budget cuts and the alliance upgrade is available by invoking the venerable internal/external balancing debate. This staple of realist theory holds that states balance against threats either by rearming using their own resources (internal) or by seeking the support of allies (external). There is an implicit trade-off: internal balancing is more expensive but more certain; external balancing is cheaper, but allies may be unreliable (Waltz 1979: 165–170; Posen 1984: 16–19). The timing of the budget cuts may suggest this sort of logic at work; in other words, Gillard might have been trying to compensate for the reductions in defence spending by deepening defence ties with the US. But the evidence for a direct connection between these two moves is thin, and more convincing (but less elegantly connected) explanations seem preferable.

Most pertinently, support for ANZUS in Australia has remained very high for decades. In the year before ANZUS was signed, 1950, 87 per cent supported the negotiations (Gallup 1950); in 1969 it had risen to 89 per cent; and it was the same in 1979 (Campbell 1989: 57) and 1996. In 2001, even before 9/11, support stood at 83 per cent, it climbed over 90 in the aftermath (McAllister and Clark 2008: 39), and remained high, at 87 per cent, in 2012 (Lowy 2013: 7). These remarkably stable, high levels of support for ANZUS – the fifth variable – interacted with America's pivot to Asia (which provided an *opportunity* to upgrade ANZUS), allowing Gillard to pursue domestic political gains.

The pressure to return a surplus, the fourth variable, which led to the budget cuts, seems to have also been motivated by domestic politics rather than a conscious determination to 'exploit' the recent ANZUS upgrade: at least this author can find no direct evidence connecting the two decisions directly. Returning a budget surplus doesn't seem to have been overwhelmingly important, objectively speaking, given Australia's relatively stellar economic performance during that period; in particular, in 2012 Australia's debt to GDP ratio was only 23 per cent.<sup>4</sup> But Labor has been haunted by perceptions of economic irresponsibility ever since the Whitlam era in the early 1970s (Martin 2011), and Gillard was under sustained attack from a combative opposition leader, Tony Abbott. Thomson also noted in 2012 that

During most of the 2000s ... we could have both guns and butter. That is not the situation today – every dollar spent on defence imposes a visible opportunity cost elsewhere. Public opinion has also

shifted. The strategic fears ... of the post-9/11 decade have been replaced with [post-GFC] uncertainty and caution (2012: ix).

By December 2012 Gillard had conceded defeat. Unexpected falls in revenue rendered an early return to surplus unrealistic and, ironically, some extra money was found for a modest rise in defence spending in the 2013 budget. It was not enough to fill the hole dug in the three previous years, but defence spending rose over 1.6 per cent of GDP (Thomson 2013).

These two domestic-level variables – pressure to balance the budget and strong support for ANZUS – therefore led to decisions (defence cuts and an upgrade of ANZUS) which provide contradictory signals about Australia's grand-strategic posture. Upgrading ANZUS sent a strong balancing signal. Yet defence spending cuts are suggestive of bandwagoning. It is notable too that Gillard, in April 2013, secured an annual 'strategic dialogue' with China to discuss economic and security matters. This achievement is important: without it the strong balancing signal of the ANZUS upgrade would easily outweigh the defence cuts given their relatively short duration, but the Australia–China strategic dialogue evens the picture somewhat. Ultimately, these variables do not directly cancel each other out. Gillard was still balancing, but not strongly.

The sixth domestic-level variable is Australian attitudes towards Chinese FDI. This grew strongly during the period under review (Drysdale 2011: 55), although it remains a small proportion of the total (2.6 per cent versus 24 per cent American FDI: NSW 2011). Various controversies, however, have arisen. About three-quarters of China's FDI has been directed into the mining sector, and while most has been welcomed, national security concerns scuppered Wuhan Iron and Steel Group's attempt to operate a huge mine near the Woomera rocket range. But when Chinalco, a State-Owned Enterprise (SOE), attempted in 2008 to acquire a controlling stake in Rio Tinto a major crisis broke. Australia's Foreign Investment Review Board's (FIRB) guidelines were amended – tellingly, by the National Security Committee of Cabinet – 17 days later to read 'investors with links to foreign governments may not operate solely in accordance with normal commercial considerations and may instead pursue broader political or strategic objectives that could be contrary to Australia's national interest'. Drysdale and Findlay note the new rules 'appear to discriminate against Chinese FDI ... involv[ing] government-owned enterprises' (quoted in Reilly 2012: 389). While ultimately Rio Tinto's board rejected Chinalco's bid, the media uproar, seemingly backed by Rudd's changes to FIRB's rules, made it hard for Rio Tinto to do otherwise (Zhu and McKenna 2012). Subsequently several other deals involving SOEs collapsed – some withdrawn, others rejected – leading BHP Billiton's CEO to note wryly that 'Australia does not want to become an open pit in the southern-most



province of China'. Other Australian miners complained loudly, leading to occasional mutterings about the sector becoming an 'economic fifth column' (Reilly 2012: 371).

Then under Gillard Huawei, the giant Chinese telco, was banned from working on the National Broadband Network. This signalled a further toughening: Huawei is not an SOE, yet it allegedly has close links with China's military and Communist Party (389). The full significance of this decision lies in the fact that virtually no Chinese company can grow 'truly large' *without* close Party ties (Walter and Howie 2011: chapter 7). And when Chinese companies – especially SOEs – try to invest in agriculture the political heat ratchets up even further; rural MPs sometimes throw around words like 'invasion' (Choy 2013). Nevertheless, the FIRB has approved most applications, and Chinese FDI soared from 2008 to 2010, suggesting a degree of selection bias skews perceptions (i.e. only rejections become newsworthy). Therefore the effect of this variable during Rudd's tenure was mixed, although changes to the FIRB's rules probably suggests some degree of balancing. Under Gillard the FIRB's new rules were consistently applied, meaning SOEs and even private Chinese companies with Party-ties seem unwelcome. Generally, 'Australian sensitivity to risks associated with Chinese investment has grown in concert with investment levels' (Reilly 2012: 390), suggesting somewhat more sustained balancing under Gillard.

The seventh and final domestic-level variable concerns internal Labor party dynamics. Labor's interpretation of Mark Latham's time as leader (December 2003 until January 2005) matters profoundly. Before becoming the Opposition Leader he called George W. Bush 'the most incompetent and dangerous President in living memory', and early in his leadership he was regularly critical of Bush's motivations and sincerity in invading Iraq. Polls soon reflected considerable disquiet over Labor's national security competence, contributing to a heavy defeat in the 2004 election (Conley 2005: 257–8) given Australians' deep attachment to ANZUS. Then, after retiring from politics in September 2005 Latham launched a startlingly abrasive attack, characterising ANZUS as 'just another form of neo-colonialism' and 'the last vestige of the White Australia Policy' (Latham 2005: 392–4).

The vitriolic nature of Latham's attack on ANZUS (and his former party) was so extreme many dismissed it as unseemly 'sour grapes' (Kelly 2005; Grant 2005). Rudd's credentials as a friend of America, in Australia, were boosted, but in Washington disquiet remained given his previous career as a diplomat in Beijing and well-known attachment to Chinese culture. He had, after all, withdrawn Australia from Iraq immediately upon becoming prime minister, and when in 2008 he travelled to China and not Japan first, breaking decades of tradition, American concerns deepened. So, his April 2008 speech in Beijing and the anti-China tone of the 2009

DWP should be seen as an effort to exorcise Latham's demon and reassure both his foreign and domestic audiences simultaneously.

Latham also suggested Gillard had shared his anti-American views in the early 2000s (Age 2009), so she too had to work hard to reassure both audiences. As deputy prime minister she told an American audience 'our alliance is bigger than one person', a not-so-subtle reference to Latham (Hartcher 2008), as prime minister she met Obama very successfully several times – indeed, the media had fun with their allegedly 'touchy feely' personal dynamics (Curley and Moores 2011: 598) – and, of course, she presided over the ANZUS upgrade. Overt anti-Americanism is obviously now understood in Labor ranks to be both strategic folly and electoral poison.

The other important aspect of Labor's internal dynamics was the Rudd-Gillard rivalry. Here is not the place to explain Kevin Rudd's spectacular fall from grace in June 2010 save to say former Attorney General Nicola Roxon commented that removing Rudd 'was an act of political bastardry, for sure. But this act of political bastardry was made possible only because Kevin had been such a bastard himself' (Grattan 2013). But Rudd refused to retire from Parliament, and eventually returned as prime minister for 14 weeks after Gillard's leadership became electorally untenable. Through all of this the Rudd-Gillard relationship descended past ruthless political rivalry into the realm of intense personal hatred.

Gillard had admitted early in her tenure that she was not very experienced, nor indeed interested in, foreign affairs. She was criticised widely, and thereafter she strove hard to demonstrate competence. And she performed well in the grand-strategic realm of foreign policy<sup>5</sup> – perhaps better than Rudd, the self-described 'foreign policy wonk' – by toning down bilateral tensions with China, upgrading ANZUS, and securing a strategic dialogue with China to boot. More pertinently, Peter Jennings argues that Gillard wanted and needed to distinguish herself from Rudd so, starting with the *Australia in the Asian Century* white paper, she 'put her personal stamp on the government's external policies... [and] distanced herself from Rudd's legacy'. She followed up with the NSS and then the 2013 DWP to 'cement her leadership from attack by Kevin Rudd, a man who appeared relentless in his objective to regain the Labor leadership' (2013: 12–13). Ultimately, of course, she failed to stop him.

The seventh and final variable, internal Labour party dynamics, thus affected Australia's grand strategy in two ways. Both leaders pointedly tried to put Latham's legacy to rest by 'fixing' the party's relationship with America (and reassuring nervous Australian voters), leading Rudd in particular to pursue a 'tough on China' line. Gillard, while striving to distinguish herself from Rudd in turn, backed away from some of his more hawkish balancing signals, while still working hard to improve US-Australia ties. The point is not that internal Labour dynamics *wholly* caused the various policies discussed above. Instead, intra-party machinations had

an *indirect* affect, they were ‘one more thing to consider’ when each leader was making foreign policy.

## Conclusion

How should we characterise Australia’s grand-strategic posture during the Rudd-Gillard era? It has already been established that it remained in the hedging zone, so in which of the sub-zones should it be placed, and why?

Australia began the Rudd-Gillard Era in the dominance denial sub-zone, and under Rudd socio-political bilateral tensions initially produced resistance to any potential movement to the right, towards the economic pragmatism sub-zone. The hawkish DoD then won in an interdepartmental struggle, and the major rearmament programme outlined in the 2009 DWP provides the clearest evidence of a strong intent to shift Australia left towards, and possibly even into, the soft balancing sub-zone. Yet institutional incapacities in the DoD arrested this momentum to some extent. Perhaps if Rudd had survived as prime minister for longer he would have solved DoD’s problems: or perhaps not, given his reputation for dysfunctional micro-management. Regarding Chinese FDI, the picture is more equivocal because while Rudd did tighten the FIRB’s guidelines, he still let plenty of Chinese money in: still, there is some evidence for balancing here. Finally, the lessons of the Latham era meant Rudd fully appreciated the dangers of seeming to neglect ANZUS, and to reassure the Americans (and Australian voters) he carefully sent signals that Australia would not get too close to China. The combined effect of these variables suggests that under Rudd Australian grand strategy remained in the *dominance denial* sub-zone, however *momentum* was gathering for a shift leftwards, towards the *soft balancing* sub-zone. Indeed, this author suspects that if Rudd had held onto the top job until (at least) 2013, and had effectively and quickly implemented the major rearmament programme outlined in 2009, this paper would probably be concluding Australia had moved into the soft-balancing sub-zone.

Under Gillard the picture is more complex, although it can be said immediately that Australia did not leave the dominance denial sub-zone. There is evidence to support the view that Gillard led Australia right, towards economic pragmatism, especially the triple-policy-punch represented by her three white papers, which substantially toned down the ‘alarmism’ about China’s rise that permeated the 2009 DWP. She cut the defence budget quite a bit, she didn’t hector China too loudly or too often about human rights, and she eventually succeeded in upgrading bilateral ties by establishing the annual strategic dialogue. And in putting her own ‘stamp’ on foreign policy she carefully tried to distinguish herself from her bitter political enemy, Kevin Rudd.

But to argue Australia was shifting right towards the economic pragmatism sub-zone under Gillard would be premature. The best conclusion is probably that she *stabilised* Australia's grand-strategic posture, arresting the leftward drift towards soft balancing discernible under Rudd. In particular, Gillard upgraded Australia's alliance with America: part of this was no doubt done to avoid the domestic imperative of not being seen as anti-American and to more generally please ANZUS-loving Australian voters; but she probably also felt it was in the national interest to grasp the opportunity presented by America's pivot to Asia. Furthermore, her cuts to the defence budget were relatively short lived, with a boost in her final Federal Budget suggesting the earlier cuts had been motivated by the domestic political concern of returning a surplus, not by a belief that China had suddenly gone all soft and fuzzy. Crucially, no major weapons procurement programmes were axed, they were only *delayed*. And no free-passes for Chinese FDI were issued under her tenure: indeed, she was tougher on FDI than Rudd had been.

All of these suggest balancing behaviour – not enough for us to say Gillard was moving decisively towards the soft balancing sub-zone – but enough to confidently conclude that Australia was also not tracking towards the economic pragmatism sub-zone. Crucially, both Rudd and Gillard in their own distinctive ways sought to ensure America remained firmly 'in' Asia, a classic hallmark of the dominance denial posture.

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### **Notes**

1. Rudd returned as leader for 14 weeks after polls suggested Gillard would lead Labor to a catastrophic defeat.
2. Australia depends on the US for defence against a nuclear attack or invasion by a hostile great power, and for intelligence and weapons procurement.
3. Either: the Chinese people felt the Olympics signalled their country had 'arrived' as a great power, and pressured Beijing to 'act tough'; or, China's 'coming out party' was 'rained on' by human rights criticism, feeding conspiracy theorising about Western attempts to 'cut it down to size'.
4. Compare to: US 101 per cent; Greece 156 per cent; Japan 211 per cent.

5. In other areas she struggled, most notably in dealing with the thorny problem of asylum seekers.

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