

Comparative Strategy

ISSN: 0149-5933 (Print) 1521-0448 (Online) Journal homepage: www.tandfonline.com/journals/ucst20

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To cite this article: Michael Clarke (20 Apr 2026): The good, the bad and the ugly: Scenarios of Sino-US competition and their implications for Australian defense policy, Comparative Strategy, DOI: 10.1080/01495933.2026.2654190

To link to this article: https://doi.org/10.1080/01495933.2026.2654190

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Published online: 20 Apr 2026.

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COMPARATIVE STRATEGY
https://doi.org/10.1080/01495933.2026.2654190

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The good, the bad and the ugly: Scenarios of Sino-US competition and their implications for Australian defense policy

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ABSTRACT

This paper explores three scenarios for the future evolution of Sino-US 'strategic competition' and examines how these trajectories may affect the defense strategy adopted by Australia. It identifies three scenarios for Sino-US relations: the normalization of 'strategic competition'; the retrenchment of the United States under the second Trump presidency coupled with Chinese resilience under Xi Jinping; and the simultaneous retrenchment of the United States and the stagnation and/or retrenchment of Chinese power. It argues that the first of these scenarios, while presenting significant risks, provides Australia with greater prospects of achieving its core security objectives than the latter two scenarios which confront Australia with the prospect of having its strategic dependency on the United States leveraged by a transactional White House or its economic prosperity undercut by a stagnating China.

Introduction

The Albanese government's April 2024 National Defence Strategy (NDS) described 'strategic competition' between the US and China to be 'a primary feature of Australia's security environment' that 'will likely have the greatest impact on the regional strategic balance'.[1] This assessment has served as the basis for the reorientation of Australian defense policy that has been undertaken by the government over the past two years.[2] These documents have made the case for the Australian Defence Force (ADF) to become a 'focused force' capable of undertaking a 'strategy of denial' which, in the words of the April 2024 NDS, 'aims to deter any conflict before it begins, prevent any potential adversary from succeeding in coercing Australia through force, support regional security and prosperity, and uphold a favorable regional strategic balance'.[3] The shift to a 'focused force' posture and the recentering of deterrence as a core strategic concept, organizing principle and objective for Australian defense policy has resulted in capability investments and acquisitions – such as the AUKUS nuclear-powered submarines and long-range strike missiles - that are focused on enhancing the ADF's capacity for what Defence Minister Richard Marles has described as 'impactful

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projection' (i.e. the capacity to project military force beyond Australia's immediate region).[4] Australia's current defense policy thus rests on an assessment that the most probable conflict scenarios in which the ADF may be involved in coming years will be a product of Sino-US 'strategic competition' in the Indo-Pacific.

The strategic merits and weaknesses of the strategy embodied in the DSR and NDS have been the subject of intense debate and commentary in Australia, and it is not the intention of this paper to revisit these. Rather, this paper seeks to explore potential scenarios for the future evolution of Sino-US 'strategic competition' and their potential implications for the defense strategy embarked upon by Australia with the DSR and NDS. Barma et al note the use of scenarios in security studies is most often used as 'a technique for examining the robustness of strategy' by providing 'depictions of possible future states of the world, offered together with a narrative of the driving causal forces and potential exogenous shocks that could lead to those futures'.[5] Scenarios are thus not predictions as 'the designer and user of a prediction assume that the prediction is a certainty', whereas 'a scenario, by contrast, is a statement that assumes uncertainty. It describes not a certain world but only a possible world'.[6] Scenarios, Barba et al contend, thus provide 'textured, plausible, and relevant stories that help us imagine how the future political-economic world could be different from the past in a manner that highlights policy challenges and opportunities'.[7]

This paper thus explores plausible scenarios for the development of Sino-US 'strategic competition' and examines how different trajectories in the relationship may affect the defense strategy embarked upon by Australia. It identifies three plausible scenarios for the development of Sino-US relations with a focus on exploring the capability requirements, alliance posture and regional relationships required for Australia to be successful in each. I describe these three scenarios as the 'good', the 'bad' and the 'ugly'. The first scenario envisages the normalization of Sino-US relations into a state of sustained 'strategic competition' characterized 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 second scenario envisages Sino-US relations as defined by the retrenchment of US power under a second Trump presidency simultaneous with a China rebounding successfully from its Covid19-era travails. Under this scenario a second Trump administration will place increased pressure on allies in Asia to accept most of the burden for their defense and an American predilection to strike 'deals' with China over major flashpoints such as Taiwan and the South China Sea. For Australia, its high level of strategic dependency on the United States will be leveraged by a transactional and alliance-cynic president without concern for its interests. The third scenario envisages Sino-US relations to be defined by US retrenchment under a second Trump administration (as detailed in second scenario) combined with a stagnation and/or retrenchment of Chinese power in the face of major domestic and foreign policy challenges. This scenario presents Australia with the potential for a worst-case outcome as American retrenchment significantly weakens the central pillar of Australian defense and strategic policy, while Chinese stagnation weakens the Australian economy and potentially incentivizes China to jump through a closing window of opportunity to establish regional spheres of influence.

The Good: The normalization of Sino-US 'strategic competition'

The normalization of Sino-US 'strategic competition' is the most likely scenario in which Australian defense and strategic policy will have to operate for the foreseeable future. This trend for Sino-US relations was already in train when President Joeseph R. Biden came into office in 2021 and have only been solidified since. For Washington, competition is driven by China's challenge to both American power and leadership and its (perceived) desire to change the international order, while for Beijing, competition is rooted in continued American 'hegemonic' pretensions to 'contain' China amidst its inevitable 'decline'. This makes both parties perceive the relationship in zero-sum terms, while the premium that this places on 'competition' is impacting negatively on both Chinese and American foreign and domestic policy agendas.

Each parties' response to this trend of Sino-US relations has been to prioritize a 'security' first approach. The Biden administration's concrete actions in the strategic realm reflected this with 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 pursued a 'decoupling' of high-tech trade with China, including overtly protectionist trade and industrial policies such as the CHIPS Acts aimed at boosting American competitiveness in the context of bilateral Sino-US trade relations and undercutting China's lead in emerging technologies.[9] These trends were reinforced by National Security Adviser Jake Sullivan's 27 April 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'.[10]

China, too, reinforced the primacy of security considerations as bilateral ties worsened. The linkage of increased pressure in China's external environment and its domestic security was underscored in Xi's report to the 20th Party Chinese Communist Party (CCP) Congress in October 2022. Here, 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'.[11] 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'.[12] This pessimistic framing of the external environment, as Tanner Greer observed, reflected the Party's 'darker assessment of humanity's historical trajectory' and the 'hidden risks and open dangers' posed to China's quest for 'national rejuvenation'.[13]

This pessimism was driven by the intersection of Xi's apparent obsession to prevent challenges to the CCP's authority with the failure of the economy to bounce back from its Covid-induced slump and the perception of US-led 'containment'.[14] Domestically, this 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'.[15] An example of this latter trend was China'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.[16] In the realm of foreign policy, too, these concerns contributed to a shift in emphasis in China's approach away from the strident 'wolf warrior' diplomacy toward a more pragmatic stance that sought to rebuild China's relations with many US allies such as the European Union, Australia, Japan, reinvigorate ties with key regional bodies such as ASEAN, the SCO and BRICS and deepen Chinese engagement with the developing world to offset perceived US attempts to 'suppress' it.[17]

China also adopted more explicit language that blamed the United States for China's challenges. In a discussion with Chinese commerce and industry representatives on 7 March 2023, for instance, Xi described China's international environment as full of 'uncertainties and unpredictable factors', foremost of which was 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 Foreign Minister Wang Yi and US National Security Adviser Jake Sullivan in Vienna on 11 May 2023 subsequently made this position explicit, noting 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' China 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'. For China, as the commentary concluded, American policy was driven by the belief that 'China must be brought down in order to keep America ahead'.[19]

The trend toward the normalization of competition as the organizing principle for Sino-US relations was further underscored by President Biden and Xi Jinping's 16 November 2023 meeting in Washington DC. While the meeting produced some short-term outcomes such as restoring military-to-military dialogue, it reinforced strategic competition. President Biden, for instance, was explicit in describing the US and China 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' in order to win that competition.[20] 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 China's 'unfair trade policies', 'non-market economic practices', and human rights abuses in Xinjiang, Tibet and Hong Kong.[21] Xi did not frame bilateral relations as a locked into competition but 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 policies are designed to 'curb China's high-quality development and deprive the Chinese people of their right to development'.[22]

The normalization of Sino-US competition presented Australia with a situation that successive governments over the past two decades have sought to avoid: overt competition (and potential conflict) between its alliance partner and its dominant trade partner. For much of the past two decades Canberra embraced an approach to avoid this outcome based on deepening economic and trade linkages with China while simultaneously hedging against the downside risks of growing Chinese power through the deepening of the alliance with the United States.[23] Here, American power, and Australia's alliance with it, amounted to an insurance policy should China translate its growing economic heft into military and strategic power to undermine regional security. This approach has been of declining utility since the late 2000s as crises of American power induced by the Global Financial Crisis (GFC), military misadventure in the Middle East, and fracturing domestic political consensus, have combined with growing Chinese power and assertiveness to undermine faith in the assumption of continued American primacy in Asia.[24] These shifting structural conditions have served to heighten Australian sensitivity to how shifts in the balance of power beyond its immediate region can directly affect its national security. This sensitivity has been expressed in the consistent identification in defense and strategic policy since the late 2000s of the need to build up Australia's long-range maritime strike and intelligence collection capabilities as a means of contributing to regional security and as hedge against both US relative decline and future Chinese assertion.[25]

Since 2020 successive Australian governments have undertaken several major efforts - including the Defence Strategic Update (DSU), conclusion of the AUKUS agreement in September 2021, the 2023 Defence Strategic Review (DSR) and the 2024 National Defence Strategy (NDS) – to strengthen and develop the country's capacity to deal with this shifting strategic environment. A unifying theme across each of these documents has been a push to re-center deterrence as both an organizing concept and objective of Australian defense and strategic policy. The Morrison government's 2020 DSU enunciated the reasoning for this when it asserted that as the Indo-Pacific was increasingly characterized by great power competition Australia could "no longer rely on a timely warning ahead of conflict occurring" as in the past.[26] Although it noted that "only the nuclear and conventional capabilities of the US can offer effective deterrence against the possibility of nuclear threats against Australia", it was nonetheless "essential" given the "nature of current and future threats" for Australia to "grow its self-reliant ability to deliver deterrent effects".[27] The DSU identified investment in long-range precision guided munitions (including hypersonic missiles), unmanned systems and intelligence platforms as key to achieving "more potent capabilities to hold adversary forces and infrastructure at risk further from Australia".[28] The conclusion of the trilateral Australia, United Kingdom and United States (AUKUS) security agreement in September 2021 - comprised of three core "pillars" of tripartite cooperation on Australian acquisition of nuclear-powered, conventionally-armed submarines (SSN), "advanced capabilities" such as cyber, artificial intelligence, quantum technologies, and "long range strike" capabilities - further embedded deterrence as the cornerstone of defense and strategic policy. The three pillars of AUKUS, according to one analyst, demonstrated that the agreement would provide immediate and longer term contributions to the ADF's capacity to deliver "deterrent effects" as Pillars 2 and 3 (i.e. advanced capabilities and long range strike) were "designed to shift the military balance

over the 2020s and through the 2030s" while Pillar 1 (i.e. SSNs) would add "further deterrent power after that".[29]

More significantly, however, AUKUS demonstrated that the much debated "China choice" had been definitively decided in favor of the United States.[30] Rather than accept declining American power and accommodate itself to growing Chinese power and influence, Australia through AUKUS had effectively chosen to actively bolster American power in the region.[31] Put simply, the agreement respresented "an acceleration of Australia's push to assume a larger and more active geostrategic role in upholding a favourable balance of power in the Indo-Pacific" by enhancing its own "advanced military and defence industrial capabilities" and by "supporting the strongest possible US security presence in our region, including through longstanding efforts to deepen high-end military integration between Australia and the US".[32]

This trend was reinforced by the 2023 DSR and 2024 NDS. Both of these documents identified five core inter-linked tasks for the ADF: it must have the capacity to: (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".[33] This thus attempts to posture the ADF to simultaneously be able to deter threats to the Australian continent and contribute to the deterrence of potential challenges to the Indo-Pacific regional order. The strategic posture developed in the DSR and NDS is thus a hybrid one that embeds an inherent tension long evident in Australian strategic thinking.

"This", as Rod Lyon neatly summarized, "pits those who believe Australia should concentrate on fighting off existential threats close to home…against those who would be prepared to fight for grander goals in more distant theatres".[34] The DSR and NDS attempt to balance this division in capability terms through a focus on a range of missile systems aligned to the area denial requirements of the deterrence by denial posture in Australia's northern approaches - such as the Precision Strike Missile (PrSM) (range 500km), Army Tactical Missile System (ATACMs) (range 300km) for high-mobility artillery rocket system (HIMARS), Long Range Anti-Ship Missile (LRASM), naval strike missile (NSM) (range approx. 185km), and Joint Air-to-Surface Standoff Missile-ER (JASSM-ER) cruise missile (range approx. 1000km) - and the SSN program envisaged under AUKUS to contribute to "order maintenance" missions in farther flung theatres.[35] This latter capability, in the words of Minister for Defence Richard Marles, will be central to increasing "Australia's freedom to operate *around our region*, putting doubt in our enemies' minds about where their assets are at risk.[36]

This combined with Australia's increased commitment to "host U.S. long-range air and submarine forces" suggests "an Australian version of the old U.S.-Japan 'shield and sword' division of labor".[37] Neither the DSR nor the NDS however "describes the intent or direction of Australia's defense policy in this way" but rather links "the (rather vague) concept of deterrence" to "the (equally vague) concept of denial" without specifying how it may fit into "multilateral- or alliance-level deterrence of conflict in the wider Indo-Pacific".[38] This lack of specificity arguably represents a considerable risk for Australia as there is contradiction between the conception of deterrence (i.e. deterrence by denial) and the capabilities to achieve it identified by the DSR and NDS, on the

one hand, and the conception of deterrence (i.e. 'integrated deterrence') that was adopted by the Biden administration. The conceptualization and practice of 'integrated deterrence' to date suggest an effort geared less to the utilization of military power to deter immediate threats than one concerned with leveraging not only of 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.[39]

This is problematic for Australia given that China's current military posture and capabilities are arguably focused on a "local balancing" strategy 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 through heavy investment in the PLA's anti-access/area denial (A2/AD) capabilities and expansion of its diverse ballistic missile capabilities and nuclear triad.[40] The Pentagon's October 2023 report on Chinese military strategy and capabilities acknowledged this, stating that the "PRC's counter-intervention strategy aims to restrict the United States from having a presence in the East and South China Sea regions—within the FIC [first island chain]—and increasingly to hold at risk U.S. access in the broader Indo-Pacific region'.[41] This, as M. Taylor Fravel notes, suggests that "military competition between the United States and China will likely create a contested zone in maritime East Asia into which both sides can project power but neither may be able to dominate".[42]

The question for Australia is how do the strategy and capabilities committed to under the DSR and NDS mitigate the risks of such contestation escalating to conflict? Given the operational benefits of SSNs (i.e. extended stays at sea and advanced anti-detection capabilities), they appear more suited to a strategy of deterrence by punishment which, in contrast to denial, works by cost imposition – i.e. convincing an adversary that any military action will be met by retaliation severe enough to outweigh the benefits it may hope to achieve from such action.[43] In the most likely theaters in which conflict is conceivable, such as South China Sea or Taiwan, geographic proximity and Chinese anti-access/area denial capabilities means that a punishment strategy would have to undertake counter-value strikes on the Chinese mainland to be credible. But, as the Pentagon's October 2023 assessment of Chinese military power noted above identified China's A2/AD capabilities are considerable, raising doubt as to the credibility and prudence of an Australian SSN undertaking such missions.

These strategy and capability problems have been overlaid by a second, and broader, geo-economic one in that current Australian defense and strategic policy does not take adequate account of the dynamics of what could be termed the emerging political economy of 'strategic competition'. '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'.[44] This has predictably resulted in both internal and external balancing behavior through a focus on mobilizing 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 China's perceived threat.[45]

The Biden administration's economic approach to this challenge revealed an over-riding concern with relative gains that one would expect in such a scenario.[46] While the administration preferred to frame its economic approach as 'de-risking'

rather than its predecessor's 'decoupling' agenda, its policies demonstrated a desire to limit exposure to dependencies on Chinese supply-chains and to weaken sources of Chinese economic dynamism as a means of sustaining American hegemony. The Biden administration therefore retained all the first Trump administration's (2016–2020) trade tariffs on China and its intensive scrutiny of Chinese FDI in the American economy, while adding its own suite of policies - such as the Inflation Reduction Act (IRA), CHIPS Act and 'place-based' industrial policy that sought to 're-shore' key industries and supply chains.[47] These measures, as Biden's National Security Adviser Jake Sullivan remarked, were geared to maintaining 'as large a lead as possible over China'.[48] Through this agenda the administration attempted 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'.[49]

This however constituted a 'potentially transformational shift' in American macro-economic policy that carried with it 'thorny foreign-policy implications'.[50] First, it negatively impinged on Washington's capacity to act as the leader of a 'rules based' global economic order. Not only did Biden's 'progressive economic nationalism' turn its back on Washington's post-1945 agenda of removing restrictions on global trade but it also undercut the notion that the United States could, 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'.[51] Second, the Biden approach weakened American efforts to combat Chinese 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.[52] Third, it increased the likelihood that others would seek to emulate American policy, producing a protectionist race to the bottom.[53]

The bad: Retrenching america, resilient China

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 China and a retrenching America. This would combine the twin perils of strategic abandonment by an 'isolationist' Washington and coercion (or worse) by a powerful Beijing. The immediate catalysts for such a scenario on the US side of this equation are relatively clear: the return to the presidency of Donald Trump, the further radicalization of the Republican Party and polarization of US domestic politics.[54] 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.[55] For Australia, the second Trump presidency is emerging as more troublesome than the first. 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: (i) Trump's 'learning' curve; (ii) the Trumpification of the Republican Party; and (iii) 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. Such an assertion carries even less weight in Trump's second term. Indeed, Trump within the first months of his second presidential incarnation has proven that he 'can move down a learning curve'.[56] Trump has learned that the adage that 'personnel is policy' is key to driving the national security bureaucracy toward a president's desired policy ends. Given his experiences here during the first term – including conflicts with alleged '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) regarding their unwillingness to implement his policy preferences on major foreign policy issues – a key lesson has been to appoint loyalists to fill key national security positions in his cabinet (Horowitz 2022; Slattery et al 2024).[57] This was signaled prior to the 2024 election when Trump asserted that he would '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'.[58] The upshot would be that Trump's second term foreign policy team 'would likely feature hardly anyone with a significant record of leadership in diplomacy or the military that could put the brakes on his wildest ideas'.[59] True to his word, since returning to office Trump has purged the ranks of career federal public servants and the top leadership of the US military, and appointed loyalists, to key positions.[60] Such moves, as Steven Livitsky and Lucan Way note, amount to the 'politicization and weaponization of government bureaucracy' designed to 'systematically disadvantage and weaken the opposition'.[61]

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.[62] Perhaps most indicative of Trump's departure from tradition post-1945 Republican foreign policy has been his administration's alignment with with authoritarian and revisionist Russia and a negative disposition toward traditional allies. The former of these was reflected in the realm of key personnel appointments as well as direct foreign policy choices. With respect to personnel, the appointment of long-time Putin apologist Tulsi Gabbard as Director of National Intelligence, for example, raised concerns amongst allies as to the security of intelligence sharing with the United States.[63] Meanwhile, the Trump administration moved decisively away from the previous Biden administration's support for Ukraine. Here, the administration attempted to force Ukraine into granting the United States controlling rights over the country's resources and infrastructure as 'reparations' for American aid, publicly humiliated President Volodymyr Zelensky in an ill-tempered White House meeting and halted the sharing of military intelligence with Kyiv.[64] Such is the administration's favorable moves toward Russia that Putin's long-time spokesman, Dmitry Peskov, remarked that the new administration's foreign policy 'largely aligns with our vision'.[65]

Beyond the issue of Russia-Ukraine war, the Trump administration turned on allies and neighbors, threatening to annex Canada, Greenland and Panama, imposed a universal 10% tariff on all imports and ratcheted up tariffs on Chinese imports to 145%.[66] His position on key American alliances is also clear. During his final year in office in his first term he reportedly 'privately indicated that he would seek to withdraw

from NATO and to blow up the U.S. alliance with South Korea, should he win reelection'.[67] His predilection to mix bluster and flattery in dealings with other foreign leaders such as Kim Jong-un ('he wrote me beautiful letters') and Xi Jinping ('a great man' and 'brilliant leader') in pursuit of a 'deal' for America also presents a troubling dynamic for allies.[68] Trump's handling of Sino-US relations during his first term suggested a disconnect between the president's own views and those of his then national security team. Several accounts of the Trump White House, for instance, report multiple instances of Trump dismissing his team's concerns over Chinese repression in Hong Kong and Xinjiang and his questioning of American commitments to defend Taiwan.[69]

While thus far in his second term President Trump has coupled the reimposition of his 'trade war' against China and appointed several China hawks (e.g. Senator Macro Rubio as Secretary of State) to senior positions in his administration, there are also other currents of thought within Trump's orbit that suggest the tempering of outright hawkishness toward China. Vice-President J. D. Vance, for example, while sharing Trump's enthusiasm for tariffs on China has also expressed foreign policy views that place him adjacent to 'restraint' and 'prioritizer' constituencies in the Republican Party.[70] Vance has also expressed similar views to that of the President regarding both the war in Ukraine and asserting that a Trump-Vance administration would 'make our allies share in the burden of securing world peace' and ensure there are 'no more free rides for nations that betray the generosity of the American taxpayer'.[71] Part of Vance's reasoning here is that the war in Ukraine, and European security more broadly, is a distraction from China, which he has described previously as the 'biggest threat to our country'.[72] Yet the nature of the challenge posed by China to the United States from Vance's public statements is construed in primarily economic terms. In his GOP convention acceptance speech in 2024, for example, he linked Trump's 'America First' economic agenda to China by noting that the enactment of this agenda would 'build factories again, put people to work, making real products for American families made with the hands of American workers' and 'stop the Chinese Communist Party from building their middle class on the backs of American citizens'.[73] Elsewhere he had asserted that the 'dumbest of all possible foreign policy solutions and answers for our country is that we should let China make all of our stuff and we should fight a war with China', noting that 'we should, in my view, not fight a war with China if we can avoid it, we should also not let the Chinese make all of our stuff'.[74]

Such dynamics pose at least three problems for Australian defense and strategic policy. First, Trump's known transactionalism and disdain for alliances raises questions about the future of the SSN 'optimal pathway'. There are already considerable hurdles with respect to US naval shipyard capacity and rising concerns about how the sale of two or three Virginia-class submarines will impact the US navy's own capabilities to be overcome for Australia to acquire the interim Virginia-class submarines.[75] Given his track-record Australia can have little assurance that Trump would not seek to revise the terms of this agreement, either in terms of what Australia will pay for the 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 in emblematic of how the Morrison and Albanese governments have locked Australian defense and strategic policy into an outright relationship of dependency on the United States. Indeed, as Australian strategist Paul Dibb noted in 2018, Australia has 'no credible

defense future without the US alliance' as 'we need to ensure that we continue to have access to highly advanced American military equipment, combat systems and weapons so that we maintain a technological edge in our own region'. In the past, the power asymmetry inherent to the Australia-US alliance prompted Australian government's to pay an 'alliance premium' of committing to various US strategic and military operations as a means of maintaining the presumed defense guarantee to Australia under the ANZUS Treaty.[76] The costs of that premium will potentially rise under the second Trump administration as Australia's increased dependency on, and increased 'sunk costs' in, the alliance, will provide leverage that Trump would likely have few qualms about exercising.[77] Third, current Australian defense and strategic policy had attempted to align with the previous Biden administration's 'integrated deterrence' concept. That concept however encapsulates predominant themes of dissuasion, escalation control and burden shifting, which suggested that the United States had moved toward a more risk-averse posture than in the immediate past.[78] While the thrust of the Biden administration's understanding and practice of 'integrated deterrence' was arguably at odds with Australia's much tighter focus on the deterrence of immediate challenges/threats under its 2023 DSR and 2024 NDS, it nonetheless served as stimulus for greater focus on how Australia could not only posture its military forces and capabilities to fend off immediate threats but also best develop its defense infrastructure, sustainment and logistics capabilities to support American power projection. Unsurprisingly, 'integrated deterrence' appears not to have survived the transition to the second Trump administration. As indicated by Trump's 2026 NDS document, the administration's focus, is guided by the theme of 'America First' which seeks to 'evaluate, sort, and prioritize' amongst American national security interests. Here, the maintenance of American preeminence in the Western Hemisphere and homeland security have arguably been prioritized over deterring China.[79]

The risks posed by the second Trump administration will be exacerbated should China succeed in its efforts to reinvigorate its economy after its Covid-induced slump, modernize its military, and reinvigorate its global diplomatic engagement. Just as with the case of the United States, predicting China'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 China's trajectory in the short term, as 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 U.S. global leadership with avoiding economic decoupling from the West', and 'balancing competition between different sub-factions in elite politics'.[80] Xi's ability to manage the last of these balancing acts appears – at least in the short term – to be relatively assured given his apparent success in consolidating his preeminent position with the CCP at the 20th Party Congress in October 2022 and subsequent purges of the PLA's leadership.[81] The 20th Party Congress too also saw amendments to the Party constitution that incorporated some of Xi's key ideological precepts and priorities, including the enshrinement of the 'two establishes' (i.e. to establish the status of Xi Jinping 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') and Xi's call for greater Party discipline and 'rigorous self-governance' to

'forge' the 'good steel' required for the Party and country to face the 'situation of unparalleled complexity'.[82]

Xi's ability to balance economic growth and security is less straightforward. 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'. He warned that the country was entering 'a period of development in which strategic opportunities, risks, and challenges are concurrent' and that as such 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'.[83] 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.[84] 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.[85]

Yet an indication that security is not in fact all is provided by the fact that 'development' formally remains a priority after the 20th Congress. The way it will be pursued however demonstrates the embedding of the political economy of 'strategic competition'. There have in fact 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 China's economic policies will take including: the revitalization 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 promoting domestic innovation and technology development to reduce dependencies on the West; trade diversification away from the United States.[86] 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 Chinese economy from volatility from abroad, while still benefiting from selling in overseas markets'.[87] China's continued investment in BRI as well serves to complement 'dual circulation' through its focus on industrial and infrastructure investments which will encourage the development of China-centric transport and trade linkages that will facilitate Chinese exports.[88] Significantly, these trends were reaffirmed by Xi at a 5 May 2023 meeting of the Central Financial and Economic Affairs Commission, where he 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'.[89] Only in this way could China not only ensure 'our future development' but also attain 'the strategic initiative in international competition'.[90]

Some trade data suggests that China 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 China fallen since 2018 but they 'are falling farther and farther behind foreign peers also selling into the

Chinese market'.[91] The problem for the United States 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 Chinese market. This, for example, is supported by developments in Sino-Australian trade relations, where Australian exports have rebounded to record highs with the removal of China's restrictions despite Canberra's commitment to the US alliance and concerns about Chinese strategic intentions.[92] A China that succeeds in managing this new development model will have significant implications. Successful substitution of domestic production for imports, for instance 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 United States).[93]

Finally, how China 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. China's strategy here, as Ryan Haas 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.[94] China efforts in the former context (i.e. centering itself and de-centering the US) are now embodied in three inter-linked initiatives, the Global Development Initiative (GDI) (announced September 2021), the Global Security Initiative (GSI) (announced April 2022), and the Global Civilization Initiative (GCI) (announced 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 China's 'balanced, coordinated, and inclusive' 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'.[95] The GSI, in turn, makes the case for what Xi terms 'indivisible security' in contrast to the US pursuit of its own (or its allies') security through the use of security alliances and economic sanctions.[96] Finally, the GCI contrasts China'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.[97] 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, noninterference in the internal affairs of states, and 'state-focused and state-defined values system' are paramount.[98] The emphasis on 'civilisations' is indicative too of China's desire to elevate 'states with linkages to ancient empires' such as itself and some of its current partners such as 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'.[99]

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.[100] Moreover, these initiatives will serve as complements to preexisting efforts to elevate 'the importance of groupings in which it has membership and Washington does not' such as BRICS and the SCO.[101] Consistent with its economic approach of diversifying from trade with the US, China's diplomatic posture too is also trending toward a focus on offsetting poor relations with Washington by increasing diplomatic outreach to others. Data collated by Haas on the diplomatic meetings and travel of China's top leaders since December 2022 demonstrates that 'China's top officials have focused on building relations along their periphery and working to limit the damage to China's relations with Europe'.[102]

A resilient China that can demonstrate that it is rebounding from its Covid19-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 twenty first century. Such an outcome for Australia – combined with the risks of a second Trump presidency noted above – presents a mixed picture. Economically, a rebounding China will be of benefit to Australia. This however will be balanced against the fact that a politically and economically resilient China 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 China 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 China 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 Australia has made with AUKUS and the DSR and NDS.

The ugly: Retrenching America, retrenching China

This scenario would see US retrenchment under the second Trump administration (as detailed above) combined with a stagnation and retrenchment of Chinese power in the face of major domestic and foreign policy challenges. This scenario arguably presents Australia with a worst-case outcome: US retrenchment removes the central pillar of Australian defence and strategic policy, while Chinese stagnation weakens

the Australian economy, and may provide impetus for China to jump through a closing window of opportunity to seize Taiwan. In this scenario, a retrenching China would be the product of the failure of Xi Jinping's three-part balancing acts noted in the previous section. Rather than successfully mediating the tensions between these imperatives (as in the 'resilient China' scenario above), Xi and the Party privilege security above the economy with significant negative consequences for not only China'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 in this context 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'. 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 Chinese foreign policy: 'peace and development is the theme of the times' and 'China's development is in an important period of strategic opportunity'.[103] These *tifa* were replaced in Xi's report by the assertion that China's environment was characterized by 'major changes unseen in a century' which mean that China has 'entered a period of development in which strategic opportunities, risks, and challenges are *concurrent* and uncertainties and unforeseen factors are rising'.[104] The trajectory of Xi's thought suggests that he no longer sees 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'.[105] From this perspective the elevation of the 'struggle' for security in Xi's 2022 Party Congress report signals that 'the economy-centered era is over' and that the Party now perceives security as the prerequisite for economic development.[106] 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 several preexisting trends in the domains of both security and economic policy. In a security context, a China traveling this trajectory will intensify its efforts to maintain social 'stability' through traditional and technologically-enabled surveillance methods (Chin and Lin 2023) and the expansion of 'discipline inspection' beyond the Party itself to become a tool of societal governance.[107] 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 China's hi-tech sector, including a focus on surveilling foreign companies and/or individuals for 'leaking' sensitive 'national security' related information, will continue.[108] 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, China will reinforce the key pillars of its 'state capitalist' model by increasing Party direction/control of SOEs, 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 China's domestic market.[109]

These domestic security and economic trajectories will also pose problem for China's domestic politics. Within the Party itself, Xi's success in consolidating not only his power but also his stacking of elite bodies such as the PBSC with leaders closely aligned to him at the 20th Party Congress may ironically set the stage for what Neil Thomas describes as 'sub-factional' rivalries amongst them that could exacerbate the stagnation of 'reform'.[110] While Xi has assured that there will be no opposition to *himself,* and the political 'line' he has established for the Party, through ensconcing loyalists, 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 Organization 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.[111] Here, 'minor differences 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.[112]

A political elite more focused on intra-party positioning post-Xi will be ill-prepared and disincentivized to meet the significant economic headwinds that China 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' that will help overcome major structural challenges in the Chinese economy stemming from its aging population, high youth unemployment and rising income inequality.[113] There will little incentive for the coterie of leaders that Xi has installed to question this apparent 'worship' of the 'magic power' of advanced technologies or his apparent faith in the Party's 'capacity to mobilize resources' to 'replace human creativity in furthering Chinese technological progress'.[114]

Failure to grapple with such economic challenges will also have flow on effects for China's foreign policy. A continued tightening of regulatory pressure on foreign businesses operating in the Chinese market, for instance, will likely see a further chill in foreign direct investment and stimulating capital flight from the Chinese economy.[115] Reliance on the 'techno-nationalist' fix of industrial policy as well 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.[116] 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 jeopardized by a continued economic slowdown, weakening a major plank of China's strategy to 'de-center' US global leadership.

These trends – combined with the pessimistic turn evident in Xi's 20th Party Congress report - suggest that China under this scenario faces what political scientist Michael Beckley has described as the dilemma of a 'peaking power'.[117] Here, 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'.[118] Moreover, Beckley maintains that authoritarian 'peaking powers' are both 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.[119]

Under this scenario, then, Australia could be faced with an ambitious and anxious China seeking to attain 'national rejuvenation' before it is too late simultaneous with a retrenching United States 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 specter of the retrenchment of Chinese power. This latter aspect could take the form, for example, of overt expansion of Chinese dominance over contiguous Southeast Asian states such as Laos and Cambodia (where China has well-established influence) and greater risk taking to embed Chinese security and economic influence further afield such as in the South Pacific or the Persian Gulf. Paradoxically, the risk of war posed by a retrenching China – whether by playing to domestic nationalism or risk-taking to establish regional satrapies - would thus become more likely rather than less in this scenario.

One troubling implication of the 'peaking power' thesis is that China may feel compelled to jump through a window of declining opportunity to forcibly resolve the Taiwan issue in its favor. The strategic incentives for such an undertaking, as 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 to defend China's expanded maritime interest and highly industrialized and urbanized 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'.[120] That incentive would be magnified considerably should 'peaking China' coincide with retrenchment of the United States under a second Trump administration. If the United States abjured intervention, China 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 an effective defense of Taiwan absent direct US military intervention.[121]

Even without a 'peaking' China 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 for example would in this scenario present significant risks to Australia. The 'Australia-Tuvalu Falepili union' concluded in November 2023, for example, through which Canberra has provided a treaty-level defense guarantee to the island nation, raises questions about the ADF's capability to provide that in the event of a third-party security threat. Under the scenario of a retrenching China that is more risk-tolerant in the pursuit of establishing regional spheres of influence and a reticent and retrenching United States, how could Australia reasonably expect to defend Tuvalu? Euan Graham and Bec Shrimpton (2023) note here that the 'ADF would be operating far beyond the range of unrefuelled land-based air cover, and Funafuti's 1,500-metre runway is too short for high-performance aircraft. Even presupposing that Fiji, 1,000 kilometers away, was available for staging purposes, contested ADF operations in the vicinity of Tuvalu would be a stretch without help from the US'.[122] How would the ADF, for instance, respond to Chinese efforts to coerce

Tuvalu through its 'well-rehearsed grey-zone tactics—for example, encroaching on Tuvalu's large exclusive economic zone'?[123] Under this scenario 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 Chinese markets for its exports thus undercutting the 'guns and butter' approach to the political economy of strategic competition. Coupled to a transactional second Trump presidency, Australia would face tough choices about security as well as prosperity amid a tense regional environment.

Conclusion

This paper has explored three plausible scenarios for the development of Sino-US 'strategic competition' and examined how different trajectories in this relationship across these scenarios may affect the defence strategy embarked upon by Australia. Under the first scenario - the normalization of Sino-US 'strategic competition' - 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 economic dynamism would intensify existing tensions in Australia's calculations regarding the balance of its economic and strategic/security interests vis-à-vis the Sino-US contest. The Albanese government's current approach of seeking the 'stabilization' of Sino-Australian relations simultaneous with the deepening of strategic dependency on the United States presents the potential for Australia's future choices to be primarily determined by choices made in Washington and Beijing as both great powers become increasingly focused on relative gains. In the context of the normalization of Sino-US competition envisaged by this scenario, Australia should pursue three policy priorities to mitigate risk. First it should build on the Albanese government's efforts at the stabilization of Sino-Australian relations through a 'selective engagement' approach focused on maintenance of trade and economic relations in non-sensitive sectors and continued clear communication of Australia's 'red lines' with respect to its foreign and defence policy interests. Second, it should develop a more calibrated and nuanced approach to alliance management by clear communication to Washington that Canberra's support should not be assumed amidst Sino-US disputes or tensions, thereby lessening the potential for miscalculation or misinterpretation in Washington. Third, Australia should continue to build upon its diplomatic efforts to develop 'spoke-to-spoke' cooperation amongst US allies and partners in the Indo-Pacific as both a hedge against alliance skepticism in Washington and as a means of building functional cooperation between US allies in the region to mitigate great power coercion (by either China of the US).[124]

The second scenario explored by the paper, characterized by a retrenching US under a second Trump administration and a resilient China, in turn, would likely see increased pressure on American allies in Asia to accept more of the burden for their defence and an American predilection to strike 'deals' with Beijing over major flashpoints such as Taiwan and the South China Sea. For Australia, its high level of strategic dependency on the US in such a scenario could potentially 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 risking Australia's capacity to attain the capabilities

required to deter Chinese challenges to regional order and its national security. To mitigate these risks Australia's approach should be defined by three priorities. First, like the first scenario, a fundamental objective would be to hedge against alliance volatility. In contrast to the first scenario, simply communicating the limits or conditionality of Australian commitment would not be sufficient but would have to be coupled with significant investment in the development of a more self-reliant defence capability, particularly regarding munitions, shipbuilding and sustainment. Second, to hedge against declining credibility of US security commitments in the region, Canberra would have to consider the formalization of deeper defence arrangements with a range of its existing partners including Japan, the Philippines, Indonesia and India. Third, in the context of a retrenching but transactional US, Australia would have to prepare contingency plans for confronting great power deal-making over, for example, Taiwan or the South China Sea.

Finally, the paper argued that the third scenario of the simultaneous retrenchment of both the US and China could present Australia with a worst-case outcome as it would remove the central pillar of Australian defense and strategic policy (US security alliance), while PRC stagnation would weaken the Australian economy and thus decrease the economic resources required for internal balancing, and encourage the PRC to jump through a closing window of opportunity to establish regional spheres of influence. The core risk in this context is thus a simultaneous security and economic shock that would erode the central pillars that have underpinned Australian security (i.e. the US alliance) and prosperity (i.e. economic interdependence with China) for the past three decades. Under this scenario the pressure for a transition to a fully independent and self-reliant defense posture would be intense and would carry with it the necessity for an exorbitant – in Australian historical terms - defense budget.[125] This pressure would also be coupled by an imperative to reorient the Australian economy in response to declining Chinese demand. Here, Australia would have to work hard to replace reliance on the Chinese market through expansion of trade and economic engagement with multiple prospective partners.[126] Given the retreat of the United States under this scenario, Australia would face the likelihood of having to adopt a more proactive posture with respect to its immediate region to guard against potential opportunistic Chinese behavior. Each of these measures would come with considerable costs for Australia in defence, economic and diplomatic terms.

Under former Prime Minister John Howard's long tenure from 1996 to 2007, Canberra's ability to manage Australia's continued commitment to its security alliance with the U.S. while simultaneously deepening economic and trade engagement with China was based on the assumption of continued U.S. primacy in Asia. Washington's power, and Australia's alliance with the U.S., amounted to an insurance policy should China translate its growing economic heft into military and strategic power to undermine regional security.[127] This approach has been of declining utility since the late 2000s, as crises of U.S. power induced by the global financial crisis and military misadventures in the Middle East combined with growing Chinese power and assertiveness to undermine faith in the assumption of continued U.S. primacy in Asia.[128]

However, rather than accept declining U.S. power and accommodate itself to growing Chinese power and influence, successive governments from that of former Prime Minister Kevin Rudd (2007) through to Albanese (2023-present) have chosen to focus

Australian strategic and defense policy on bolstering U.S. power in the region to combat a China that, in the words of Foreign Minister Penny Penny Wong, "uses every tool at its disposal to maximise its own resilience and influence."[129]

Australia's "China choice"[130], then, has thus been *for* a balance-of-power world. Indeed, as Foreign Minister Wong asserted in an April 2023 address to the National Press Club in Canberra, Australian statecraft aims to ensure a "predictable region, operating by agreed rules, standards and laws. Where no country dominates, and no country is dominated. A region where sovereignty is respected, and all countries benefit from a strategic equilibrium."[131] The best way to ensure this, Wong implied, is through supporting U.S. efforts to maintain the status quo, as competition between Washington and Beijing "is not merely about who is top dog" but rather "about the rules and norms that underpin our security and prosperity, that ensure our access within an open and inclusive region, and that manage competition responsibly."[132]

Balance-of-power systems, as Hans Morgenthau observed, are ultimately not geared toward avoiding war. Rather, they are geared toward avoiding hegemony, if necessary, at the price of war.[133] Australia's reorientation of its defense strategy and capabilities toward deterrence, illustrated through the AUKUS agreement as well as its 2024 National Defence Strategy, demonstrate a deepening commitment to the U.S. alliance at a time when, as noted above, the US itself under the Trump administration is actively reshaping American commitments to allies. Part of the Albanese government's hedge against the downside risks of this dynamic has been to increase its increased investment in diplomatic, economic and security cooperation with other US allies and partners, as well as efforts to "de-risk" the Australian economy from its dependence on China.[134]

This posture, as Wong has argued, aims to ensure that the region can continue "trading together at the epicenter of global economic growth, through a transparent system, where economic interdependence is not misused for political and strategic ends."[135] In addition, it is meant to sustain Australia's capacity to contribute to a "sufficient" balance of power "to deter aggression and coercion." Ultimately, "strategic reassurance through diplomacy," Wong concluded, is to be "supported by military deterrence."[136] It is not surprising that successive Australian governments sought to capitalize on both trade opportunities and strategic stability while U.S. primacy remained uncontested. But national security is, if anything, an endeavor that requires acceptance of risk, in this case that deterrence might fail, leading the balance of power to slide into conflict. Each of the scenarios explored in this paper underscore this simple fact and the attendant reality that none of the choices may make in response are without potential peril.

Notes

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Disclosure statement

No potential conflict of interest was reported by the author(s).

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