

# Australia's incrementalist hedging in a fractured order

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Australia has enjoyed an international order highly conducive to its interests and values since it began to develop its own foreign policy in the 1940s. Of the array of forces that create an international order, three have been of greatest significance for Australia: geopolitical stability, a dynamic and liberal global economy and a set of international institutions aligned to its strategic and economic disposition.

If China and the United States had not worked out how to co-exist in Asia in the 1970s, the region would still be riven by ideological conflict. This would have significantly dampened Australia's economic growth, diverted more resources into defence spending and likely dragged the country into further conflict.

Instead, a period of great-power amity created an environment where nations were able to focus on domestic priorities. Australia's economic and security interests were aligned, as China's acceptance of US primacy meant that doing business with China was geopolitically unproblematic.

Australia has also benefitted from the liberal economic and political values established by the international institutions that were created after 1945. Since the 1980s Australia has embraced a low tariff approach to trade that was made politically possible by the General Agreement on Tariffs and Trade and World Trade Organisation trade regime.

The strength and success of the international order led many to assume that it would endure indefinitely. Yet great power amity has been cast aside, with the [United States and China](#) now openly regarding each other as rivals. Other ambitious major powers also jostle for influence, including Russia and India, creating a turbulent strategic context. The institutions promoting liberal policies created after World War II, already under some strain, are now reaching breaking point as the United States no longer supports them.

Australia faces challenging circumstances. Its economic wellbeing is increasingly tied to a country, China, that is becoming the enemy of its security guarantor, the United States. The corrosion of liberal institutions reduces Australia's options and constrains its scope for influence. Geopolitical rivalry across a range of domains and involving multiple great powers is becoming the defining feature of the strategic

landscape; distinguishing between the economic and strategic aspects of competition is increasingly difficult.

In response to this dramatic recasting of its international milieu, Australia has opted for an incrementalist hedging approach — making minor adjustments rather than radical changes to its existing strategic trajectory to hedge against the risks of great power conflict.

The most significant adjustment Australia has made was the commitment to expand its war-fighting capabilities, as first flagged in the 2009 Defence White Paper and concretely committed to in 2016. While the planned acquisitions are significant for Australia — doubling the size and scale of the submarine fleet and dramatically increasing its air force capability — they make only a marginal difference in terms of the regional strategic balance.

Australia believes that the United States will remain Asia's dominant power and continue to have the strategic vision and political will to underpin regional order in the coming decades. Yet there is growing evidence that the United States has badly underestimated China's power and purpose, is complacent about strategic transformation in Asia and has done little to prepare its population for the accompanying costs and risks of a long-term strategic contest with the PRC.

Australia's incrementalist hedging also focuses on maintaining strong, positive relations with all of Asia's major powers. Another aim is to advance regional multilateralism through activist diplomacy. It has also embraced the Indo-Pacific as a novel geo-strategic construct guiding its international engagement.

Based on these actions, the core assumption of Australia's incrementalist hedging approach is that major changes to policy are not needed. In the face of a fundamental transformation of the strategic, ideational and economic environment, Canberra has determined that the course on which the ship of state is travelling needs only to be adjusted slightly.

One only needs to look at the difficulty of maintaining effective relations with the major powers to see the [flaws of this assumption](#). In just under five years, Australia and China have moved from establishing an annual premiers' dialogue and a free trade agreement to their relations reaching their lowest point since the Tiananmen Square massacre. Worryingly, this frigid state of affairs has become the new status quo. This change in Australia–China relations is not just a function of a more assertive and confident China or tactless diplomacy from Canberra. It reflects the limits of incrementalism in a time of radical change. Australia cannot pursue policy as if it is still 2004.

Given the changes to great power relations, the nature of power and the rapid shift in how the United States views its interests and global role, the return on Australia's investment in its incrementalist approach will continue to decline.

The challenge is to determine out how Australia can advance its interests in a world where great power rivalry and geopolitical instability are the norm, where power is shifting both its locus and form, and liberal values and institutions are in free fall. Assuming the never-ending dominance of the United States in Asia and the continual functioning of liberal institutions will not do.

The times demand bigger and more creative strategic thinking than incrementalist hedging. Whether that means Australia should move out of the US orbit, join a muscled-up military coalition to push back against China's ambitions or work with a whole raft of countries to reconstitute international order is far from clear. But small changes during times of massive transformation will ensure a diminished Australia.

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