

Contending with a Rising China

A Comparative Study of Middle-Power Strategies in the Indo-Pacific

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Abstract

As China and the United States standoff in strategic competition, many observers predict that middle powers will play a pivotal role in determining the Indo-Pacific's future. This research attempts to shed light on attributes that define the foreign policy behaviors of middle powers vis-à-vis China. It bridges qualitative and quantitative methods in examining the economic, defense, and political characteristics of Australia, the Philippines, and Indonesia, in particular. The research suggests that for the Indo-Pacific, it is advantageous for middle powers to coalesce multilaterally as doing so not only minimizes economic vulnerabilities but also presents China with a united political front that advances fair and equitable policies in the region. Additionally, middle powers are more likely to embrace the West in pursuit of a stronger military arsenal and improved military capabilities should diplomacy fall short.

The rise of China commands attention in a globalized system. The embrace of neoliberal policy agendas through international constructs has brought forth an era of rapid industrialization and development around the world, of which China has been one of the greatest benefactors. Without question, China's power has grown to surpass its counterparts in the Indo-Pacific in recent decades. With its growing power, Beijing has discovered that China can shape world politics and desires to transform the existing international order into a framework that suits the ideals of the Chinese Communist Party and extends the notion of China as the "Middle Kingdom."

Opposed to the disruptive nature of China's rise is the United States. These two great powers compete for leadership in shaping a new regional order. Caught amid the two are the *middle powers*: countries with capabilities that cannot individually match those of great powers yet can still shape outcomes by working through alliances or coalitions. The middle powers of the Indo-Pacific are likely to accept an international system that preserves middle-power agency, engenders economic growth and development, guarantees political autonomy,

and reduces the prospect of military conflict. At the same time, middle powers are uneager to find themselves aligned with the losing side of an “inevitable conflict”—as portrayed by Thucydides’ Trap.¹ As China and the United States stand off in strategic competition, many observers project that middle powers will play a pivotal role in determining the Indo-Pacific’s future. Understanding the attributes that affect middle-power foreign policies will be a key determinant in shaping regional outcomes.

This research attempts to shed light on attributes that define the foreign policy behaviors of middle powers vis-à-vis China. A dissection of the policy tactics by which China asserts dominance across the region reveals elements of economics, defense, and politics. Through these lenses, scholars can make a comprehensive comparison between middle powers that highlights situational similarities and differences in their relationships with China. In this evaluation, Australia, the Philippines, and Indonesia are the focus. These three middle powers exhibit many similarities in their ties with China yet pursue different policy strategies that ultimately lead to very different outcomes. Australia and Indonesia display an ability to resist Chinese influence while the Philippines does not.

A thorough examination of the attributes that contribute to successful middle-power strategies reveals that of the three nations: (a) Australia has gained the most economically through trade and investment, (b) Australia has the strongest defense posture for confronting China in a military standoff, and (c) Australia has achieved success primarily through a foreign policy strategy of balancing against China. Indonesia has also achieved considerable success but has done so through a strategic hedging strategy. In contrast, the Philippines has shifted between strategies of balancing and hedging, with little to no development to show for it.

Australia’s success stems from effective military capabilities, strong security ties with the United States, and proactive use of institutional balancing. These facets allow Australia to be more critical of China’s actions with demonstrably less risk of a Chinese response. The Philippines and Indonesia have refrained from embracing this policy avenue in the past decade and in doing so have exposed themselves to greater military risk. However, they can still safeguard their futures by investing in military capabilities that deny China from their territorial waters, while joining other middle powers in multilateral institutions that exclude China and thereby leverage China into cooperation through a form of collective action.

Comparative Method and Country Selection

One strategy for bridging the gap between international relations (IR) theory and quantitative research is to shed light on how countries exert influence over one another. In the case of China, Beijing wields power through a combination of economic, military, and political means. From this basis, each component of power can be dissected for further interpretation.

This article uses a comparative method to analyze the effectiveness of foreign policy strategies enacted by Australia, the Philippines, and Indonesia. Without an established quantitative methodology for distinguishing hard- and soft-power relationships among countries, John Stuart Mill's *method of agreement* and *method of difference* were used to draw similarities and differences between countries—providing a basis for causal inference. The causal inferences determined in this article, while not as robust as other established quantitative methods, provide a baseline for policy comparison that furthers existing qualitative analysis.² The inferences made also highlight new avenues of research and open the door for more rigorous quantitative approaches for analyzing Indo-Pacific IR.

The goal in selecting the three specific middle powers for this study was to isolate countries that share many characteristics but implement different strategies. Australia, the Philippines, and Indonesia are similar in that they are democratic maritime states that have strong economic ties with China. They also possess rich mineral deposits, large fossil fuel reserves, and other natural resources. Meanwhile, they seek to expand their advanced manufacturing capabilities to climb the hierarchy of global value chains. They are also different than some other countries in the region, choosing not to adopt strategies of bandwagoning like Myanmar, Laos, or Cambodia.³ A comparison among Australia, the Philippines, and Indonesia can provide ample evidence for which strategies are most effective at preserving middle-power autonomy while also guaranteeing economic and security advantages.

In determining the variables for such a comparison, it is important to first distinguish how China exerts influence over middle powers. As previously described, China combines the use of hard and soft power to exploit economic and military vulnerabilities, while simultaneously attempting to curtail political confrontation. Therefore, one must extricate data that highlights the economic, defense, and political relationships middle powers have with China.

Timeframe

Data for this study was collected from 2010 through 2019. This timeframe is advantageous for several reasons. First, it excludes most of the influences of the Asian Financial Crisis (AFC) of 1997–1998 and the Global Financial Crisis (GFC) of 2008–2009—times of extraordinary economic and political change. It also omits the effects from the COVID-19 pandemic. During the COVID-19 outbreak, levels of global trade, international travel, and intergovernmental cooperation rapidly declined or ceased altogether. Data from these periods are likely to be incomplete, inaccurate, and therefore potentially misleading. Second, 2010 through 2019 was a period of rapid economic growth for middle and small powers in the region. This was also coupled with growing economic ties with China—exemplified by the adoption of the Association of Southeast Asian Nations (ASEAN)–China Free Trade Area (ACFTA), President Xi Jinping’s announcement of China’s Belt and Road Initiative (BRI), and the start of an ongoing US–China tariff war.⁴ Third, the same period is marked by aggressive Chinese expansionism in the South China Sea (SCS), frequent use of Chinese economic coercion against middle powers, and the re-establishment of the Quadrilateral Security Dialogue (Quad) in 2017—a strategic security alignment between Australia, Japan, India, and the United States.⁵ These aspects make the decade of 2010 through 2019 promising for analyzing the effects of middle-power strategies and their abilities to withstand growing Chinese influence.

Economy

States can apply economic leverage in a variety of ways. China has exhibited a preference for weaponizing trade relationships and using BRI investments to influence the political behaviors of other countries.⁶ For Australia, the Philippines, and Indonesia, China stands as the leading trade partner by a vast margin, whereas these three countries individually only comprise a small fraction of China’s overall trade. At times, Beijing has exploited this trade share disparity toward Australia and the Philippines. However, Indonesia has not incurred the same fate as its neighbors.⁷ Quite the opposite, Indonesia has received enormous levels of infrastructure investment.⁸ These relational outcomes are important in distinguishing trends for analysis.

To determine the degree that Australia, the Philippines, and Indonesia are economically dependent on China, publicly available economic data were collected from each country’s respective online trade and central bank databases. This information was then cross-referenced with data collected from World Bank and International Monetary Fund (IMF) databases to ascertain an overall

level of dependence. The data compiled consisted of total value of exports and imports, value of exports and imports with China, trade balance information, foreign direct investment (FDI) from China, and foreign reserves with respect to the Chinese renminbi. Economic relationships were categorized into (1) reliance on trade with China; (2) China's reliance on trade with either Australia, the Philippines, or Indonesia; (3) reliance on FDI from China; and (4) fiscal reliance on China.

To determine one country's reliance on trade with another, nominal trade data were collected from the World Integrated Trade Solution (WITS) by the World Bank. Specifically, the values of 2019 exports and imports were combined and subsequently divided by the value of GDP. For determining a reliance on FDI, the value of FDI received from China was compared to that of the United States. The reliability of the government-released economic data from China is typically scrutinized as unreliable.⁹ Therefore, FDI data for China was collected from the China Global Investment Tracker, published by the American Enterprise Institute—a comprehensive examination of Chinese FDI abroad. US FDI data were collected from the Bureau of Economic Analysis (BEA). With sufficient data collected, each attribute was calculated for, if necessary, and then graded qualitatively along four tiers: *high*, *moderate*, *low*, and *negligible*.

In distinguishing a difference between each tier of trade reliance, the AFC was used as a premise for evaluation. The AFC is perceived as one of the most impactful economic events that has occurred in East Asia—more so than the GFC, which also had a significant effect on Asian markets.¹⁰ The economies of South Korea, Indonesia, Malaysia, and Thailand were devastated by the AFC. One common outcome for each country was the subsequent impact to GDP, with each country combating an annualized negative growth of 5 percent or more. In particular, Indonesia faced a 13.1-percent plunge in its GDP¹¹—triggering a political collapse and restructure known as the *Reformasi* era.¹² Based on the experiences of these countries, it can be ascertained that a 5-percent drop in GDP could once again trigger recession-like scenarios for middle powers in the region. Therefore, if a country was evaluated as having a *high* economic dependence, its relations with China represent a proportion of 5 percent or greater of national GDP. A *moderate* dependence was categorized as a situation in between 2.5 and 5 percent. Moderate dependence was determined with Lithuania in mind—a recent example of a country, with 2.5-percent GDP reliance on China, which was able to withstand Chinese economic coercion.¹³ A *low* amount would represent an amount between 0.5 and 2.5 percent, and a *negligible* amount would be an amount less than 0.5 percent. Readers can review the variables and attributes, along with the respective sources, in Appendix A. For evaluating FDI data, inflows were com-

pared qualitatively based on the relative aggregate amounts from China versus the US during 2010–2019, and the annualized proportion in relation to GDP.

Monetary access has been used as a coercive measure by some countries—notably, Western powers.¹⁴ Central bank reserve currency holding information was gathered for each country to determine the vulnerability associated with such risk. Reserve currency holdings of the Chinese renminbi were evaluated across each country to determine the financial risk China could leverage. This risk was evaluated along the same percentage basis as trade reliance on GDP, as monetary risk would impart a comparable economic impact.

Defense

In terms of defense, many countries in the Indo-Pacific region prefer to balance economic ties with China with security reassurances provided by the United States. These states implement such balancing in various ways, depending on each country's hedging strategy.¹⁵ Some countries elect to implement hedging strategies more than others. To that end, the region as a whole showed increased levels of military expenditures after 2009. Observers view this as an effort to modernize military arsenals to resist Chinese maritime assertiveness.¹⁶ There are numerous accounts of armed disputes in the SCS between China and ASEAN member states in the past decade.¹⁷ However, material capabilities must also be weighed with the ability to utilize assets operationally and alongside allied or partner nations.

To gauge the defense dynamics between China and Indo-Pacific middle powers, a proper account of military capabilities and formal relationships with great powers is needed. Defense attributes were categorized into (1) ability to maintain border sovereignty, (2) level of security cooperation with the United States, and (3) the level of security cooperation with China.

Intrinsic to the ability to maintain border sovereignty are capabilities associated with deploying naval personnel and assets to territorial waters, as to deny access to China's forces. These characteristics were drawn from the Lowy Institute's Asia Power Index—a comprehensive analysis of relative power in the Indo-Pacific that tracks and measures indicators across eight specific themes.¹⁸ Additionally, these military characteristics are measured contextually alongside competing territorial claims and reported incidents with China. Based on these inputs, this article evaluates each country qualitatively on the scale of *high*, *moderate*, *low*, and *negligible*.

Military relationships with the United States also pose a threat to Chinese expansionism. A middle power's alignment with a great power limits China's willingness to escalate military confrontation. Security cooperation can be

predicated on defense treaties or other formal agreements. Australia and the Philippines have formal defense arrangements with the United States outlined by treaty, whereas Indonesia does not.¹⁹ Nonetheless, defense partnerships are frequently less formalized and take the form of combined training exercises and military acquisitions.²⁰ To determine the extent of security cooperation Australia, the Philippines, and Indonesia had from 2010 to 2019, arms purchase records were obtained from the Stockholm International Peace Research Institute (SIPRI). This information was reviewed in tandem with treaty data and military training exercise data retrieved from the Asia Power Index to determine an overall evaluation. Again, these attributes were evaluated on the tiers of *high*, *moderate*, and *low* based on effective military interoperability through similar equipment, combined training, and an expectation of collective defense should conflict erupt. A country presumed to join the United States in conflict in full capacity would be evaluated as *high*; a country presumed to join in limited capacity would be considered *moderate*; a country presumed to join in little to no capacity would be viewed as *low*. The same evaluation was made for security cooperation relationships with China.

Politics

China shows a predisposition for reacting adversely to direct forms of political confrontation and attempts of multilateral cooperation by other countries. China's sensitivity to outcries of expansionism in the SCS, criticism of human rights violations in Xinjiang, or acknowledgment of Taiwan as a sovereign state, is seemingly correlated with severe economic coercion. Australia and the Philippines have both been the targets of Chinese economic coercion.²¹ In contrast, when Indonesia downplayed a maritime dispute in the Natuna Sea in 2014, China refrained from using economic coercion.²² An attempt to understand the disparities in Beijing's reactions was made by dissecting political behaviors into fundamental political attributes.

The political attributes assessed were (1) portrayal of ambiguous political signals, (2) capability for institutional balancing, and (3) level of democracy. These political attributes are indicative of strategies pertaining to hedging, balancing, and bandwagoning. Specifically, ambiguity is commonly associated with hedging and is indicative of a country's hedging strategy, whereas institutional balancing is less ambiguous and is an attempt at diminishing a great power's influence. Political attributes associated with bandwagoning, in the instance of a rising China, come with authoritarian nuances. China's ambitions and economic pursuits have proven effective at promoting autocratic consolidation in the region.²³ Specifically, Cambodia, Laos, and Myanmar frequently align politically with China and are considered reliant

both economically and militarily—suggesting that they are bandwagons.²⁴ With authoritarianism as a correlated pretense for bandwagoning, the level of democracy is suggestive of an inversely proportional relationship with bandwagoning.

This article assesses the portrayal of political ambiguity by analyzing qualitative assessments made by hedging scholars to determine levels of strategic ambiguity and comparing these with political favorability with the United States and China and favorability from their general publics. The rationale for this is to compare ambiguity alongside relationships. A *high* evaluation was characterized by nonpolar tendencies between the United States and China. For example, moderate scores in all aspects of favorability and criticism of the United States and China would result in a *high*. In contrast, a *low* evaluation was characterized by polarized tendencies of favorability or criticism to one particular great power.

Favorability was determined by gathering data from Pew Research Center's Global Attitude dataset responses and conducting a Likert scale analysis based on weighted average.²⁵ Responses were weighted 1 to 5 points based on the level of favorability. For example, a "very unfavorable" response would receive 1 point, whereas a "very favorable" response would receive 5 points. This weighted average was evaluated corresponding to the following method: a score greater than or equal to 3.50 would constitute as *high*; less than 3.50 but greater than or equal to 2.50 would constitute as *moderate*; less than 2.50 but greater than or equal to 1.50 would constitute as *low*; and less than 1.50 would constitute as *negligible*.

This article measures institutional balancing by retrieving the Intergovernmental Organizations (IGO) dataset from the Correlates of War (COW) Project—an effort to facilitate the use of reliable quantitative data in IR. Data was examined to determine overall IGO membership and multilateral framework membership with respect to China and the United States. This was then categorized into inclusive and exclusive components. These numbers were qualitatively evaluated to highlight shortfalls in multilateral framework participation. A *high* assessment encompasses the ability to deter or resist Chinese influence and therefore a higher participation in multilateral frameworks that exclude China and a higher participation in multilateral frameworks that include China and the United States.

With a lack of scholarly literature that links institutional participation and balancing, this article forms a baseline through shared opinions by scholars and political experts. A middle power that has successfully employed institutional balancing in recent years is Australia, which has led the way in some multilateral initiatives and has used "a complex blend of traditional middle-power multilateralism and peace-building initiatives" that force China to accept a US presence in the Indo-Pacific.²⁶ Using Australia as a middle-power example for institutional balancing, its quantity of inclusive and exclusive multilateral frameworks were

constituted as top measures for *high* evaluations and categories for lower measures were divided up into thirds from this baseline.

Bilateralism affords great powers the ability to assert more efficient control over smaller powers.²⁷ In the past, China has been able to leverage bilateral agreements to pit affiliated countries against each other. For example, China has used infrastructure investments as a way of dissuading Cambodia, Laos, and Myanmar from voting in support of a Declaration on the Code of Conduct for the Parties in the South China Sea. Their lack of consensus has limited ASEAN's efforts toward establishing a legally binding agreement with Beijing in the region, giving China the ability to continue SCS expansion.²⁸ Multilateral engagement by middle powers ultimately poses a threat to Chinese influence as it provides an opportunity to establish a united front in opposition to Chinese foreign policies through institutional balancing. A country's ability to implement institutional balancing, therefore, plays a role in deterring Chinese aggression.

Bandwagoning involves aligning with a threatening power to avoid being attacked by it. For some countries in Southeast Asia, this has come at the detriment of autonomy.²⁹ This erosion of autonomy and overall autocratic consolidation can be attributed to the failure of party politics, political polarization, strength of civil society, institutional and governmental accountability mechanisms, cultural foundations, middle-class representation, and external influence.³⁰ The Varieties of Democracy Institute (V-Dem) attempts to incorporate many of these aspects into its analysis of world governments through the institute's Liberal Democracy Index (LDI). Using reports to assess 2019 indices, this article evaluated the LDI to ascertain a country's vulnerability to autocratic consolidation and simultaneously its willingness to bandwagon with China. For perspective, China scored a 0.05, whereas the United States scored a 0.70. The difference between these two great powers was divided into thirds, with tiers for *high*, *moderate*, and *low* inclusive to each third. Additionally, the levels of domestic favorability of the United States and China, as assessed as a measure of political ambiguity, were also taken into consideration. Autocratic tendencies combined with an acceptance of Chinese influence or animosity toward the United States could lead a country's leaders to bandwagon with China.

Research Findings

As outlined above, data were categorized and evaluated for Australia, the Philippines, and Indonesia. Table 1 consolidates the research findings into the categories of economics, defense, and politics. The results are depicted for side-by-side comparison among countries. For a detailed examination of sources and how each variable was evaluated, refer to Appendix A.

Table 1. Comparative Study Findings

Attributes	Australia	Philippines	Indonesia
Economics:			
Reliance on Trade with China	high	high	high
China's Reliance on Trade with Country X	negligible	negligible	negligible
Reliance on FDI from China	low	low	low
Fiscal Reliance on China	moderate	low	low
Defense:			
Ability to Maintain Border Sovereignty	high	low	moderate
Level of Security Cooperation with US	high	moderate	low
Level of Security Cooperation with China	low	low	moderate
Politics:			
Portrayal of Ambiguous Political Signals	low	moderate	high
Capability for Institutional Balancing	high	low	low
Vulnerability to Autocratic Consolidation	low	high	moderate

Economic Attributes

The economies of Australia, the Philippines, and Indonesia all exhibit a *high* reliance on trade with China, while China shows a reciprocal reliance on trade that is *negligible*. In terms of GDP, each country would be prone to substantial economic shock in the event of prolonged economic coercion. Should China choose to cut off economic ties with any of the three countries, the results have the capacity to impact GDP on a scale similar to that of the AFC. At the same time, the impact to China's economy would be minimal.

This is noteworthy because China has shown a willingness to cut off economic ties with trade partners recently—specifically, against Lithuania and Australia.³¹ However, in the case of Australia and for a variety of reasons, coercive effects were mostly short-lived—resulting in relatively little overall economic impact to Australia.³² Nonetheless, not all economic coercion should be considered short term. Europe and the United States have shown their willingness to exert long-term economic coercion against Russia following its invasion of Ukraine—suggesting long-term economic coercion can be implemented if opposing sides become entrenched.³³

In terms of FDI, all three countries receive high levels of FDI from China. However, the staggering amounts put forth by the United States offsets such investments. In particular, Australia receives substantial FDI from the United States, which highlights the economic benefits of aligning with the United States.

Less impactful is the measure of foreign debt allocations. In 2019, only Australia had significant reserve holdings in China's currency, the renminbi, and this was at 5 percent. Overall, the Chinese renminbi makes up less than 3 percent of the world's

composition of reserves.³⁴ For many countries, the renminbi is deemed riskier as a reserve currency than the US dollar or Euro.³⁵ This is attributed to a lack of financial market transparency and political deficiencies that allow for potential currency manipulation.³⁶ With limited renminbi holdings worldwide, China is less able to apply economic pressure in the manner the United States or European Union (EU) can by controlling access to international reserves and bank transfer systems.³⁷ Australia's 5-percent stake in the renminbi might be viewed as rather high when compared to other countries, but it allows its central bank to diversify without exposing its economy to too much risk. However, if more countries elect to take on a greater share of renminbi in the future, the relative strength of the renminbi will rise and ultimately give China more economic sway.

Defense Attributes

Of the three countries, Australia has the strongest ability to maintain border sovereignty at sea. Australia's operational military capabilities allow it to openly confront China in conventional naval warfare more than any other country in the region. With zero reported incidents with China, some may argue that Australia does not compete with maritime claims with China and therefore would not have any. However, this assumption would be wrong because of Australia's dire need for maintaining open waterways in the region, as portrayed by its continuous monitoring in the SCS through Operation Gateway.³⁸

Indonesia and the Philippines score as *moderate* and *low*, respectively. This follows suit with developments in the SCS since 2010. China has made attempts to survey the sea floor in pursuit of oil and gas reserves in the Natuna Sea, while trying to dissuade Indonesian development there. While Jakarta has not prevented China from accessing Indonesia's exclusive economic zone (EEZ) and scanning its sea floor, Jakarta has successfully maintained a military presence in the Natuna Sea and has increasingly developed Indonesia's resources. This has not been the case for the Philippines. China has used economic coercion and hard military power to annex portions of the Scarborough Shoal and Spratly Islands. In some instances, China has gone as far as island-building and installing military outposts that include runways and missile defense systems.³⁹ This has ultimately denied the Philippines its United Nations Convention on the Law of the Sea (UNCLOS)-justified access to its own natural resources.

In terms of security cooperation, all three countries exhibit *low* levels of cooperation with China. Nonetheless, Indonesia's behavior in cooperating with China is the most remarkable of the three due to Jakarta's strategic hedging agenda and would be expected to match security cooperation efforts with the United States. Indonesia's defense partnership with the United States is comparatively much greater, yet still as-

essed as *low* during the observed period. One possible explanation for this is that Indonesia perceives economic and military policies along the same spectrum, in which stronger economic ties with China are equated with stronger military ties with the United States. In contrast, Australia exhibits *high* levels because of its continued strong ties with the United States through all aspects of security cooperation.

The Philippines is situated between Australia and Indonesia with respect to security cooperation. With limited military capabilities to deny China access to the Philippines' EEZ, Manila incrementally strengthened its formal cooperation agreements with the United States. In 2014, Manila reaffirmed a nonbinding 1951 Mutual Defense Treaty with the Enhanced Defense Cooperation Agreement (EDCA). However, swings in foreign policy with President Rodrigo Duterte's attempts at economic rapprochement with China seemed to undermine US–Philippines defense arrangements. An eventual return to the United States for security guarantees was made in 2019 when US Secretary of State Michael Pompeo reasserted a US commitment to Philippine defense.⁴⁰ For these reasons, the Philippines exhibits a *moderate* level of security cooperation with the United States. It is important to note that for all three countries the data for combined training exercises are limited to years between 2013 and 2017. Without an overall tally of exercises throughout 2010 through 2019 or a year-over-year trend, the data lack enough fidelity for interpretation and evaluation. A more definitive dataset of specific training exercises and participant countries would have better met the intent of this study.

Political Attributes

Australia, the Philippines, and Indonesia showcase different political approaches to coping with a rising China. In terms of strategic hedging, Indonesia exhibits the *highest* propensity for ambiguity in its foreign policy. The Philippines scores a *moderate* for large policy swings between China and the United States. Australia displays *low* ambiguity, as its alignment with the United States has been very clear.

Indonesia's mostly *moderate* assessments in terms of ambiguity suggest that Jakarta seeks to fill the role of honest broker in the region. Indonesia's overall demeanor is in line with its long-adopted foreign policy of “*bebas aktif*,” which translates to a “free and active”—a pursuit of independent and proactive outward policies first introduced in 1948.⁴¹ Indonesia has shown *high* political favorability toward China by downplaying disputes in the Natuna Sea, committing to ACFTA, and showing a continued willingness to incorporate China into multilateral discussion.⁴² Indonesia also joined Malaysia in signing a comprehensive strategic partnership with China in 2013—committing to making progress in security cooperation.⁴³ Concurrently, Indonesia's relationship with the United States greatly improved under the Obama administration with a memorandum of understanding for maritime

cooperation and an elevated status as a “strategic partner” to show for it.⁴⁴ This back and forth of alignment behaviors frustrates both great powers, forcing them to tempt Indonesia with incentives. From China, this typically comes in the form of infrastructure investment, such as the Jakarta–Bandung high speed rail project.⁴⁵ From the United States, this typically comes in the form of security benefits.⁴⁶

The Philippines portrays *moderate* levels of political ambiguity, signified by dramatic swings in foreign policy. President Benigno Aquino’s balancing policy toward China, brought forth by SCS contestations, led to public confrontation through the Permanent Court of Arbitration at The Hague and an eventual ruling against China in 2016. In a dramatic shift, President Duterte pivoted the Philippines toward a policy of economic rapprochement with China.⁴⁷ However, this rapprochement has had limited success, as the Philippines has received some of the lowest amounts of BRI funding in relation to its ASEAN counterparts.⁴⁸ Additionally, Duterte’s war on drugs drew criticism by the United States for human rights violations—straining the Philippines’ relationship with its top security partner. Meanwhile, the US continued support of the Philippines through the EDCA and Pompeo’s recommitment to mutual defense.⁴⁹ The unpredictability in Philippine foreign policy is characteristic of hedging. However, the confrontational and public manner in which it is implemented has driven away Chinese economic incentives. As a result, the Philippines has found itself torn between two great powers with little development to show for it when compared to Indonesia.

Australia’s *low* ambiguity does little to hinder development. Embraced by Western powers, Australia has received massive amounts of FDI and has exhibited a steadily growing economy during throughout the 2010–2019 period.⁵⁰ These ties have also allowed Canberra to take a hard stance against China by criticizing Beijing’s actions to undermine a rules-based order in the region.⁵¹ Australia’s overall behaviors are typical of a country pursuant of a balancing strategy.

Institutional balancing is one of the most effective policy tools that middle powers can effectively implement against a rising China. Australia shows a *high* capability for doing so by its participation in inclusive multilateral frameworks with both the United States and China, coupled with multilateral frameworks that exclude either party. This bodes well for leveraging middle-power ideals and encouraging great powers to conform to regional efforts. Nonetheless, Australia’s membership in the Quad and other security frameworks concerned with China’s rise allow Australia to maintain a great deal of autonomy. The Philippines and Indonesia have been less willing to frustrate China as their access to exclusive multilateral frameworks was *moderate* and *low*, respectively. The Philippines was able to gain international support through The Hague’s ruling, although this re-

sulted in little overall benefit for the country as Duterte's rapprochement with China stifled substantiated commitments from the West.⁵²

In terms of vulnerability toward autocratic consolidation, the Philippines was assessed as *moderate*, whereas Australia and Indonesia were assessed as *low*. Of the three, the Philippines was the likeliest to encounter a democratic backslide and eventual autocratic consolidation. Readers can assess each country's LDI in Appendix A. For perspective, Myanmar, Laos, and Cambodia each scored an LDI of 0.246, 0.095, and 0.088, respectively—highlighting a link in the region between autocratic tendencies and bandwagoning with China. Favorability of China was *moderate* for all three countries in this study, suggesting that this input was less influential than anticipated.

Analysis of Findings

From 2010 through 2019, the countries of Australia, the Philippines, and Indonesia showcased a range of foreign policy strategies toward China. For all three, their economies were highly reliant on trade and specifically trade with China, whereas China was not dependent on any of them individually. Where their foreign policies differ are in the areas of defense and politics.

The examined capabilities and actions of Australia demonstrate a strategy of balancing against China. Strong military and political ties with the United States give Australia the fortitude to criticize China on the world stage and withstand acts of economic coercion. This assertion can be observed in Prime Minister Malcolm Turnbull's warnings to China of "pushing the envelope" in 2015 and his further criticism in 2017 in which he accused China of disrupting the rules-based structure in the region.⁵³ One of Australia's most blatant balancing actions was in restarting the Quad in 2017 with Japan, India, and the United States—a clear message to China of alignment with the West.⁵⁴ Still, Canberra was able to reap significant economic and security guarantees without compromising Australia's autonomy.

As a result of successful hedging strategies, Indonesia has been the benefactor of many massive Chinese infrastructure investments. As of 2017, Indonesia had received over USD 171 billion in BRI investments from China—the most of any ASEAN member nation.⁵⁵ Indonesia has also been able to leverage hedging to attract investments from the United States and US-aligned countries, such as Japan and even Australia.⁵⁶ Indonesia's behavior typifies the conventional model of a hedging state.

In comparison, the Philippines has received the least amount of BRI investment of the 10 ASEAN states—totaling only USD 9.4 billion.⁵⁷ Additionally, Manila has been the target of severe economic and military coercion by China. In a successful attempt to force the Philippines to give up control of the Scarborough Shoal, China employed a successful combination of military pressure and economic sanctions in the form of tariffs, steep reductions in tourism, and other un-

official barriers to trade.⁵⁸ Without sufficient support from the United States, the Philippines was forced to give up access to the Scarborough Shoal along with the nearby oil, gas, and fishing resources.⁵⁹

The dramatic difference in experiences between Indonesia and the Philippines highlights how precarious China's rise can be for middle powers. In pursuit of hedging strategies, both countries elected to restrain defense spending to roughly 1 percent of GDP.⁶⁰ This has allowed Jakarta and Manila to put other budgetary needs ahead of military modernization and defense operating expenditures. However, a weak military can expose countries to hard-power influence that can be especially exploited by great powers such as China. In the case of the Philippines, an inconsistent and more confrontational approach to hedging constrained Manila's success.

Jakarta's approach to hedging was more consistent and less confrontational. As a result, Indonesia's reaped greater economic and security guarantees between China and the United States. Jakarta sacrificed more of Indonesia's autonomy by electing to downplay its disputes with China but, in turn, saw significant economic benefits. Of the two strategies, hedging proves to be a riskier proposition prone to political miscalculations and can result in vastly different outcomes. Furthermore, hedging capitalizes on a state's vulnerabilities that can, if a great power so chooses, be exploited for strategic power plays.

Recent Developments

Since 2019, the dynamic in the SCS has changed. Economies are still reeling from the COVID-19 pandemic, while a conflict between Russia and Ukraine has spurred inflation around the globe.⁶¹ Across the Indo-Pacific region, governments have experienced democratic degradation.⁶² Also, territorial disputes continue to fuel nationalist animosity in the SCS.⁶³ Many countries in the region have significantly increased their defense expenditures and have unveiled plans for modernizing their military arsenals. The Indo-Pacific is now more precarious than ever, and the stakes with China are becoming increasingly prone to strategic miscalculation. Australia's recent experience with Chinese economic coercion is one such example.

Following the global outbreak of COVID-19, Australia led a coalition of countries to investigate China over the origins of the disease. Beijing quickly retaliated with extreme measures, employing tariffs and boycotts on large swathes of Australian exports. While the impact to Australia's economy was minimal due to Australian businesses effectively being able to divert trade elsewhere through global markets, the Morrison government did not take this event lightly. In June 2020, Australia announced a 40-percent increase in military spending from its previous budget.⁶⁴ Then, in September 2020, Australia, the United Kingdom, and the United States announced the formation of AUKUS—a commitment to

deepen diplomatic and security ties, viewed by many as an effort to curb the advancement of China's military expansionism in the Indo-Pacific.⁶⁵ A year later, it was announced in a joint statement that the United States and United Kingdom would be sharing their nuclear-powered submarine technology with the Royal Australian Navy for greater "interoperability, commonality, and mutual benefit."⁶⁶ In the two years since, reports of standoffs and precarious encounters involving Chinese and Australian military forces have only become more frequent.⁶⁷

Philippine government officials have endorsed the AUKUS arrangement and increased security cooperation with the trio in hopes that doing so will restore the balance of power in the region. Duterte himself even lauded AUKUS during the 9th US-ASEAN Summit in October 2021.⁶⁸ While it remains unclear whether newly elected President Marcos will continue along the path Duterte set forth, the Philippines has expressed an affinity toward balancing in recent years that is also shared by Indonesia.

For Jakarta, tensions in the Natuna Sea have only escalated since 2019. Beijing has become more aggressive in asserting China's claims. Its actions encompass a four-month-long standoff with Indonesian Coast Guard forces there, a demand that Indonesia cease drilling for oil and gas in its UNCLOS-defined EEZ, and protests against Garuda Shield, Indonesia's annual exercise with the United States.⁶⁹ In response, Indonesia defied China's demands, broadened Garuda Shield to include eight other countries, and embarked on a rapid quest of military modernization and expansion.⁷⁰ Indonesian Defense Minister Prabowo Subianto's pledge of USD 125 billion toward naval and air force purchases over five years is an about-face for Indonesia's defense policy, which has primarily centered around antiterrorism for the past few decades. Indonesia's most recent policy actions suggest that Jakarta has departed its foreign policy strategy of hedging in favor of balancing.

Additionally, the unveiling of the Indo-Pacific Economic Framework (IPEF) in mid-2022 seemingly adds to the notion of balancing. The IPEF is a newly founded, US-led coalition with 12 Indo-Pacific partners that includes Australia, the Philippines, and Indonesia, with an aim of targeting trade and supply-chain vulnerabilities, committing efforts toward renewable technologies, and emphasizing international rule of law.⁷¹ The IPEF looks to counter China's BRI as it provides Indo-Pacific countries with an alternative for economic development assistance. The G-7 has also pledged USD 600 billion by 2027 through the Partnership for Global Infrastructure and Investment.⁷²

More recently, at the G-20 Summit in Bali, Indonesia, in November 2022, the world witnessed a concerted effort to encourage investment in developing countries—with the intent of bolstering the "resilience of global supply chains."⁷³ One of the first countries to substantiate this effort was Canada—launching an ambitious

Indo-Pacific Strategy with a goal of investing nearly USD 2.3 billion over five years. At the Bali summit, G-20 leaders were also able to effectively pressure the leaders of Russia and China into supporting the summit's joint statement despite conflict with their respective strategic goals by (1) condemning Russia's invasion of Ukraine and (2) encouraging economic development in a manner that diminishes China's economic leverage in regions such as the Indo-Pacific. Additionally, these commitments to investment come at a time when China's economy has been significantly hindered by a real estate collapse and President Xi's Zero-COVID policy.⁷⁴ This example suggests that economic multilateralism that includes middle powers can be an effective tool to counter China's aggression in wider contexts.

Recent policy decisions by the Philippines and Indonesia substantiate Australia's comparative success in its relationships with China. Specifically, their hedging strategies are now more indicative of balancing behaviors as they have embraced multilateralism and increased defense spending. Furthermore, recent policy developments and achievements through the AUKUS, the Quad, the G-7, the G-20, and the IPEF justify the importance of economic diversification and merit of institutional balancing.

Conclusion

Australia, the Philippines, and Indonesia offer different strategies for coping with a rising China. For Australia, this has meant aligning with the United States and balancing against China. For Indonesia, this has meant pursuing nonalignment and maintaining ambiguity through hedging. The cost of not committing to either strategy is portrayed through the limited success of Philippines—where minimal economic security is realized for the sacrifice of territorial and political sovereignty.

Middle powers in the region will be looking to reduce their vulnerabilities as a way of protecting their sovereignty and autonomy. Australia, the Philippines, and Indonesia can each benefit from reducing their economic ties with China through diversification but must do so in a manner that does not risk their relationships with China altogether. Australia's experience with Chinese economic coercion in 2020 presents an example from which other middle powers can learn.

Australia's ability to withstand economic sanctions proved to countries around the world that Chinese economic coercion can be combated through collective action among states. Since Australia's bout with China, Lithuania has also stood up to China and experienced the full burden of economic retaliation. In return, the entire EU stood by Lithuania's side, along with the United States, Australia, the United Kingdom, Japan, Canada, and Taiwan.⁷⁵ This approach of multilateral support in combating the effects of Chinese economic coercion has persuaded other middle and smaller powers to forge economic coalitions.

An economic coalition that subverts bilateral influence and guarantees economic security through mutual support can shield middle powers from China's might-makes-right foreign policies. It can also open the door for trade diversification that limits exposure to one particular country—in this case, China. Instilling a standard of solidarity, similar to that of the EU, would also heighten the impact to China's economy should Beijing elect to enact coercive measures against one country.

As the economies in the region are highly dependent on trade, trade relationships should be restructured with the predominant focus of reducing economic dependence with China. The IPEF may prove to be the best conduit for this type of change. For example, the IPEF could provide the region with a framework that reduces the dependence on cheap Chinese labor. India and Indonesia, both IPEF members, boast large labor forces that provide an alternative to China. These two nations' populations are the second- and fourth-largest in the world, respectively. With labor costs similar to that of China, both India and Indonesia can invite companies with the prospect of offshoring and diversifying regional dependence away from China.⁷⁶ This is just one of the many ways the IPEF can be used to wean the region from Chinese economic dependence.

The G-20 Summit in Bali is a prominent example of institutional balancing. A joint statement that not only condemns Russia's war in Ukraine but also commits developed economies to investing in developing regions, especially when China's economy is showing signs of faltering can be considered an achievement by middle powers and the West. This victory, while relatively small, may inspire middle powers to pursue institutional balancing further through other multilateral avenues.

For the Indo-Pacific, it is advantageous for middle powers to coalesce multilaterally, as doing so not only minimizes economic vulnerabilities but also challenges China with a united political front for advancing fair and equitable policies in the region. It is imperative that middle powers not only "enmesh" China into regional politics through inclusive forms of multilateralism but also threaten to reject Beijing through exclusive forms of multilateralism when China disrupts peaceful regional discourse.

However, there are times when diplomacy fails. In these instances, the guarantee of military strength is a necessity. This article presents a multimodal approach to quantifying and analyzing Indo-Pacific IR that distinguishes differences and commonalities among Australia, the Philippines, and Indonesia so that the importance of recent developments can be assessed with sufficient context. This research should provide a clear message to Indo-Pacific middle powers that hedging will only work until China escalates matters militarily. In which case, having the wherewithal to deny China access to territorial waters and having strong alliances are paramount in preserving a country's sovereignty and autonomy.

It is clear that Indo-Pacific states are losing patience with China's strong-armed approach to foreign policy. Middle powers in the region are now more willing to embrace multilateralism, as doing so presents a viable solution for countering China's aggressive actions. As illustrated by recent policy decisions by Australia, the Philippines, and Indonesia, the Indo-Pacific is shifting toward economic diversification and institutional balancing facilitated by multilateral frameworks. Indo-Pacific middle powers are increasingly likely to embrace the West in pursuit of stronger military capacity and greater intermilitary operability. The days of strategic hedging in the Indo-Pacific may soon be over, as middle powers learn to contend with a rising China. 🌐

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Appendix A: List of Variables and Attributes

List of Variables

Variable	Description	Equation
GDP	gross domestic product of Country X	
E_C	value of Country X's exports to China	
I_C	value of Country X's imports from China	
E_{TOTAL}	value of Country X's total exports	
I_{TOTAL}	value of Country X's total imports	
T_C	nominal trade with China	$T_C = E_C + I_C$
R_C	reliance on trade with China, contribution of trade versus GDP	$R_C = T_C / GDP$
R_X	China's reliance on trade with Country X, contribution of trade versus China GDP	$R_X = T_C / GDP_C$
T_{TOTAL}	nominal trade, overall	$T_{TOTAL} = E_{TOTAL} + I_{TOTAL}$
R_{TOTAL}	reliance on trade overall, contribution of trade overall to GDP	$R_{TOTAL} = T_{TOTAL} / GDP$
TS_C	trade share of China proportional to Country X's overall trade	$TS_C = T_C / T_{TOTAL}$
VF	very favorable, questionnaire response	
SF	somewhat favorable, questionnaire response	
SU	somewhat unfavorable, questionnaire response	
VU	very unfavorable, questionnaire response	
A_w	weighted average	

Economic Attributes

Economic:	Australia	Philippines	Indonesia	Source
Reliance on Trade with China	high	high	high	
Nominal Trade with China, T_{TOTAL}	\$159.9B	\$36.6B	\$72.9B	WITS ^a
GDP Reliance on Trade Overall, R_{TOTAL}	33%	19%	22%	WITS ^a
GDP Reliance on Trade with China, R_C	12%	10%	7%	WITS ^a
China's Reliance on Trade with Country X	negligible	negligible	negligible	
China's GDP Reliance on Trade with Country X, R_X	0.34%	0.08%	0.15%	WITS ^a
Reliance on FDI from China	low	low	low	
FDI From China (2010-2019)	\$70.95B	\$5.25B	\$25.78B	CGIT ^b
FDI From US (2010-2019)	\$1.59T	\$53B	\$146B	BEA ^c
Fiscal Reliance on China	moderate	low	low	
Foreign Debt allocated to CNY	5.00% ⁴	0.43% ⁵	0.06% ⁶	See notes d, e, and f

Notes:

- a. World Integrated Trade Solution (WITS) by the World Bank, <https://wits.worldbank.org/>
- b. China Global Investment Tracker (CGIT) by the American Enterprise Institute, <https://www.aei.org/>
- c. US Bureau of Economic Analysis (BEA), <https://www.bea.gov/>
- d. Reserve Bank of Australia Annual Report 2019, <https://www.rba.gov.au/>
- e. 2022 data; ratio of CNY reserves to total reserve holdings; no data found from 2019; Central Bank of the Philippines (BSP), <https://www.bsp.gov.ph/>
- f. 2019 Data, Indonesian Ministry of Investment (BKPM), <https://nswi.bkpm.go.id/>

Defense Attributes

Defense:	Australia	Philippines	Indonesia	Source
Ability to Maintain Border Sovereignty	high	low	moderate	
Reported Incidents with China (2010-2019)	0 ^a	18	6	CSIS ^b
Area Denial Capability ^c (2019)	84	6	35	Lowy Institute ^d
Naval Deployment Capability ^e (2019)	83	19	42	Lowy Institute ^f
Conflicting Territorial Claims with China	No ^g	Yes	Yes	Lowy Institute ^h
Level of Security Cooperation with US	high	moderate	low	
Formal Defense Arrangement	Yes	Yes	No	Lowy Institute ⁱ
Arms Purchases (2010-2019)	8001M	299M	803M	SIPRI ^j
Combined Training Exercises (2013-2017)	55	27	27	Lowy Institute ^{k,l}
Level of Security Cooperation with China	low	low	low	
Formal Defense Arrangement	No	No	No	Lowy Institute ⁱ
Arms Purchases (2010-2019)	0M	0M	323M	SIPRI ^j
Combined Training Exercises (2013-2017)	9	7	16	Lowy Institute ^{k,l}

Notes:

- a. No reported data found
- b. Center for Strategic and International Studies (CSIS), <https://csis-ilab.github.io/>
- c. Area Denial Capability factors in air defense, antinaval, intelligence, surveillance, reconnaissance, and targeting capabilities.
- d. Area Denial Capability, Lowy Institute Asia Power Index, <https://power.lowyinstitute.org/>
- e. Naval Deployment Capability factors in the ability of the navy to deploy with speed and for a sustained period in the event of a major maritime military confrontation.
- f. Naval Deployment Capability, Lowy Institute Asia Power Index, <https://power.lowyinstitute.org/>
- g. While China has not claimed any portion of Australia’s EEZ, China’s growing military presence in the SCS threatens international rule of law. Australia regularly conducts maritime surveillance flights in the region, to the dismay of China, through Operation Gateway, yet does not actively participate in US-led Freedom of Navigation Operations.⁷⁷
- h. Australia’s South China Sea Challenges, Lowy Institute, <https://www.lowyinstitute.org/>

- i. Regional Military Alliances, Lowy Institute Asia Power Index, <https://power.lowyinstitute.org/>
- j. Arms Transfers Dataset, Stockholm International Peace Research Institute, <https://www.sipri.org/>
- k. Joint Training (Allies), 2013-2017 dataset, Lowy Institute Asia Power Index, <https://power.lowyinstitute.org/>
- l. Joint Training (Non-Allies), 2013-2017 dataset, Lowy Institute Asia Power Index, <https://power.lowyinstitute.org/>

Political Attributes

Political:	Australia	Philippines	Indonesia	Source
Portrayal of Ambiguous Political Signals	low	moderate	high	
Consensus of Ambiguity from Literature	low	moderate	high	Multiple ^a
Political Favorability of China	low	moderate	high	Multiple ^a
Public Favorability of China	moderate	moderate	moderate	
Weighted Average, A_w (2019)	2.63	2.67	2.92	Pew ^b
Political Favorability of the US	low	moderate	moderate	Multiple ^a
Public Favorability of US	moderate	high	moderate	
Weighted Average, A_w (2019)	2.98	3.82	3.10	Pew ^b
Capability for Institutional Balancing	high	low	low	
Overall IGO ^c Membership	81	72	75	COW ^d
Inclusive Multilateral Frameworks	high	high	High	
With China	57	57	57	COW ^d
With US	58	42	41	COW ^d
With China and US	45	37	37	COW ^d
Exclusive Multilateral Frameworks	high	low	low	
Excludes China, includes US	13	5	4	COW ^d
Excludes US, includes China	12	20	20	COW ^d
Excludes China and US	11	9	13	COW ^d
Vulnerability to Autocratic Consolidation	low	high	moderate	
Liberal Democracy Index (2019)	0.789	0.286	0.494	V-Dem ^c
Favorability of China	moderate	moderate	moderate	
Weighted Average, A_w (2019)	2.63	2.67	2.92	Pew ^b

Notes:

- a. Endnote 75
- b. Spring 2019 Global Attitudes Dataset (Questions 8a/8b), Pew Research Center, <https://www.pewresearch.org/>
- c. Intergovernmental Organization (IGO)

- d. Intergovernmental Organizations (v3) dataset, filtered for 2010-2019, Correlates of War (COW), <https://correlatesofwar.org/>
- e. Democracy Report 2020 (contains 2019 data), Varieties of Democracy, <https://www.v-dem.net/>

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