



LIGHT OR HEAVY HEDGING:
POSITIONING BETWEEN CHINA
AND THE UNITED STATES



INTRODUCTION

The four papers in Section 1 compare hedging behavior in countries on the frontline between the rising power China and the reigning hegemon, the United States. The first paper by one of the authors of this introduction, Cheng-Chwee Kuik, elaborates on the framework introduced here and applies it to the behavior of the Southeast Asian core states of Indonesia, Malaysia, and Singapore. The second paper by Daniel Twining examines the hugely important case of India, weighing the recent moves by Prime Minister Modi that lean toward heavy hedging. Third, Malcolm Cook assesses Prime Minister Tony Abbott's policies between the extremes of bandwagoning and balancing. Finally, Park Jin takes a close look at President Park Geun-hye's hedging. This sweep across the Indo-Pacific region from South Korea through Southeast Asia to Australia and finally to India makes possible wide-ranging comparisons of states facing similar geopolitical challenges despite differing local circumstances. Omitted are the extreme cases of Japan and the Philippines (and to some extent Vietnam), subject to greater pressure from China as they search for a way to balance it, and Cambodia and Laos, the most dependent on China and more inclined to bandwagon with it. Our choices are meant to cast the most light on light vs. heavy hedging, not on bandwagoning and balancing.

The prevalent response to an assertive China and a rebalancing United States is neither pure-balancing nor pure-bandwagoning, but a two-pronged approach. More and more analysts have described this approach as “hedging,”¹ an insurance-seeking behavior under high-stakes and high-uncertainty situations, where a sovereign actor pursues a bundle of *opposite* and deliberately ambiguous policies vis-à-vis competing powers.² The aim of these contradictory and ambiguous acts is to acquire as many benefits from the different powers as possible when all is well, while simultaneously attempting to offset longer-term risks that might arise in worst-case scenarios. Such risks include the danger of betting on the wrong horse, the hazard of entrapment, the peril of abandonment, and the liability of corresponding domestic costs.³ In the framework developed below, we argue that hedging must entail three elements: (a) not taking sides among competing powers; (b) adopting opposite and counteracting measures; and (c) using the mutually counteracting acts to preserve gains and cultivate a “fallback” position.⁴ Abandoning *any* of these elements would signify a shift from hedging to balancing or bandwagoning. A behavior that exhibits one but not all three elements should not be confused with hedging (non-alignment similarly denotes not taking sides, but it does not involve the active pursuit of mutually counteracting actions).⁵

Operationalizing “Hedging” in International Relations

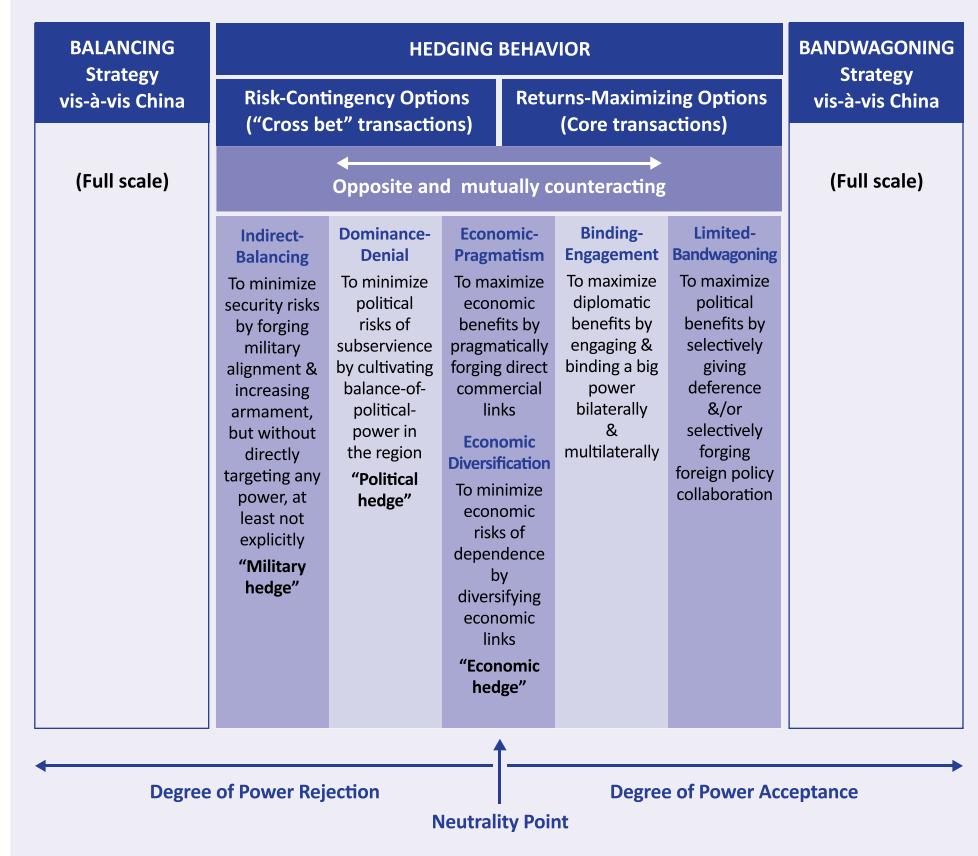
Hedging, as generally defined, is an act of insuring oneself against the risk of loss by making transactions on the opposite side so as to roughly compensate for possible loss on the first.⁶ It is a common behavior in various spheres of human life. While the term is often associated with a gambler’s act of placing multiple bets to avoid the risks of complete exposure, hedging has in fact been a prevalent practice in agriculture, trade, finance, language, and politics.⁷ In each of these spheres of human activity, hedging behavior prevails when two antecedent conditions are met: first, when there is a *high stake* involved in an actor’s principal, reward-maximizing transaction (e.g. selling an agricultural product, investing in a foreign currency, making an argument, supporting a candidate in a party contest, interacting with a big power); and second, when there is a high level of *uncertainty* – the possibility of loss (failure) or gain

(success) – entailed in the transaction, prompting the actors to use the available resources to offset the risks to which they are exposed. The higher the uncertainty and the higher the stakes, the higher the likelihood a rational actor will hedge. Hedging, therefore, is an insurance-seeking behavior under high uncertainties and high stakes, in which a rational actor seeks to pursue multiple counteracting acts so that regardless of the eventual outcome, the contradictory acts will serve to cancel out the effects of each other, thereby avoiding the risks of complete exposure and protecting the actor's long-term interests.

To operationalize hedging as a distinctive state strategy, Kuik conceives of it as a multiple-component approach situated between the two ends of the balancing-bandwagoning spectrum (see Figure 1). This spectrum is measured by the degree of rejection and acceptance on the part of weaker states towards a big power, with full-scale balancing representing the highest degree of power rejection, and full-scale bandwagoning the extreme form of power acceptance.

Hedging is not only a middle position, but also an *opposite* position, as illustrated in the adoption of two sets of mutually counteracting policies, namely the “returns-maximizing” and “risk-contingency” options.⁸ They are “opposite” in the sense that the former options are the core transactions aimed at maximizing economic, diplomatic, and political benefits from a

Figure 1. Power-Response Spectrum



positive relationship with a major power when all is well, whereas the latter, the contingency measures (or “cross-bet” transactions), are aimed at minimizing and mitigating risks in case things go awry. While the former *pleases* a big power (at times by giving deference to it), the latter *displeases* it (at times by defying it). A hedger would typically pursue these options *concurrently* so that their effects would cancel each other out. Ultimately, these counteracting acts are pursued with the goal of projecting an image of *not* siding with or against any power, thereby avoiding the danger of putting-all-the-eggs-in-one-basket when the power structure at the systemic level is still far from certain.

The above observation about hedging is applicable to weaker states’ alignment behavior under a specific scope condition: a region with two or more great powers competing for influence, where there is no effective institutionalized arrangement capable of preventing stronger actors to encroach upon the weaker ones.

In the context of Southeast Asia-China interactions, the returns-maximizing options consist of three policies. The first is “economic-pragmatism,” a policy aimed at pragmatically maximizing economic returns from a rising power. The second is “binding-engagement,” a policy aimed at maximizing diplomatic benefits by engaging and binding a rising power in various institutionalized bilateral and multilateral platforms, for the functions of creating channels of communication and increasing the status quo tendency of the rising power’s behavior.⁹ The third is “limited-bandwagoning,” a policy aimed at maximizing political benefits by forging a partnership with a big power through selective deference or selective collaboration on key external issues, *but without* accepting a subordinate position. These three options seek to reap as much payoffs as possible when situations are good.

They are counteracted by the risk-contingency options, which are made up of three approaches. The first is “economic-diversification,” a policy designed to diversify trade and investment links to avoid dependency. The second is “dominance-denial,” a policy designed to minimize geopolitical risks of facing a preponderant hegemon by using non-military means to cultivate a balance of influence among the powers.¹⁰ The third is “indirect-balancing,” a policy designed to minimize security risks by using military means of forging defense partnerships and upgrading one’s own military, *but without* directly and explicitly targeting at a specific country.¹¹ Given their different tools and functions, these options can be shorthanded as “economic hedge,” “political hedge,” and “military hedge,” respectively. Together, they serve to protect a state from possible losses, in case things take an undesired turn.

Hedging, in short, is a strategic act that works for the best and prepares for the worst. A policy that involves returns-maximizing acts without risk-contingency measures – and vice versa – is not hedging and should not be regarded as such.

This five-point composition of hedging is useful in illuminating the *range* of state options under uncertainty.¹² It also provides a clearer conceptual parameter to measure – and compare – the constituent components of different actors’ hedging behavior across countries and across time. The variations can be observed from the differing (or changing) degrees and manner in which actors (hedgers) choose to implement each of the options.

Accordingly, we conceive “heavy hedgers” and “light hedgers” as actors who seek to hedge with *different degrees of emphasis* on risk-contingency measures. Heavy hedgers, for a range of internal and external reasons, are more concerned about the possible risks embedded in the uncertain great power relations and intentions. They are therefore more inclined than light hedgers to invest in both “political hedge” (cultivating balance of political power via diplomatic and institutional channels) and “military hedge” (promoting balance of military power by developing defense partnerships with multiple players) toward a rising China.

Comparing Hedging in the Cases Covered in the Following Papers

Australia and South Korea are U.S. allies, Singapore is a close partner, Malaysia has a longstanding defense partnership with the United States, and India and Indonesia are states that have been distant from the United States but have new leaders who may reconsider. The traditional degree of closeness to Washington is only one variable in shaping the hedging response. Another is the degree to which China is perceived as a strategic challenge. The more exposed a state is to China’s maritime thrust, the more likely it is to be suspicious of China’s intentions. The fact that China has traditional security ties to North Korea and Pakistan leaves the states facing threats from them more vulnerable with implications for hedging. A further variable is how dependent a state is on China economically. Finally, states may be swayed by how close they consider their values to be to those of the United States. These are factors conventionally noted in arguments about degrees of hedging.

The evidence in these papers does not necessarily correspond to such arguments. Why states hedge differently is, Kuik asserts in his paper, largely a function of domestic legitimization, a process in which ruling elites seek to justify and enhance their authority by acting (or appearing to act) in accordance with the principal sources of their legitimacy at home. This puts elites’ political interests and national identity in the forefront, but not security concerns and economic dependency. It also avoids over-stressing the gap between democracies and authoritarian values. Kuik adds, Association of Southeast Asian Nations (ASEAN) states have endeavored to find a balance between accommodating China’s growing ascendancy and upholding their own sovereignty, while attempting to limit Beijing’s tendency to further exert its influence.

Kuik finds that Malaysia—despite its unresolved territorial problem with China—has chosen to hedge in a relatively light manner: to enhance its strategic partnership with the United States, while simultaneously developing a more productive and comprehensive relationship with China. The growing economic importance of China to the United Malays National Organisation (UMNO)-led coalition government, and the desire to avoid appearing too closely aligned with Washington—in order not to alienate the country’s Muslim majority voters and not to provoke Beijing—has restrained them from actively and openly supporting the U.S. rebalancing.

Malaysia shows how it was limited in how much it could embrace U.S. rebalancing and how its ruling elites viewed the nature of China’s growing power, prompting them to emphasize the opportunities and downplay the challenges of China’s rise. In comparison, Singapore and Indonesia have hedged more heavily than Malaysia. Singapore has been the most enthusiastic in embracing U.S. rebalancing. For the tiny trade-dependent island-state, maintaining a robust strategic alignment (short of alliance) with America—while simultaneously developing a pragmatic economic partnership with all powers (without

eroding its autonomy and maneuverability)—serves to enhance its ruling People's Action Party (PAP) elites' domestic legitimization. Indonesia, as the largest country in Southeast Asia, however, has not embraced the rebalancing to the same extent as Singapore, although it generally welcomes the enhanced U.S. military commitment to the region. Its predominantly Muslim population, coupled with the country's "free and active" foreign policy tradition and its growing national pride, also pose a barrier to drawing close to the United States. Moreover, as the republic continues its democratization process, the greater flux in political parties and the pluralization of interests do not make legitimization centering on either of the great powers a one-sided concern. The centrality of economic development to President Joko Widodo's governance performance, as well as the new leader's determination to transform Indonesia as a "maritime fulcrum" and to improve the archipelago's inter-island connectivity, further necessitates a hedging outlook for the country's evolving external strategy.

Twining finds that India is engaged in a heavy hedging against China. Its history of non-alignment, traditional rhetoric of anti-Americanism, the dominance of the tendency to view India's security mainly in terms of its sub-continental competition with Pakistan, and the tendency for analysts to hyphenate India and China as rising economies can obscure this reality, he adds, while warning that China's military assertiveness could drive India into overt balancing. Much depends, Twining notes, on how the United States structures the Asian balance of power. India's strategic objective is righting the imbalance of power between it and China, not permanently accommodating itself to overweening Chinese strength, he explains. Dualism is likely to be the defining feature of Sino-Indian relations in the period ahead: an intensifying security competition between the two Asian giants combined with deeper economic interdependence between them. In this perspective, the heavy hedging by India, leaning ever closer to the United States, has the potential to turn into bandwagoning with the United States (accordingly balancing against China) and joining in Washington's wider maritime coalition.

If India is hedging heavily with the possibility of bandwagoning with America, Australia is even further on the same side of the power-response spectrum. Cook finds consistency in policy, arguing that from before it was an independent state, Australia has bandwagoned behind the leading global power with the greatest strategic weight in Asia and has long sought an Asian security order unbalanced in favor of that power and against any alternate order dominated by the largest Asian power. Despite very high and growing trade dependence on China that is more centered on China's domestic economy than on its exports, and despite strategic depth and no history of trouble with China, a deep, institutionalized relationship with the United States has endured. Throughout the postwar period Australia's commitment to maintaining the U.S.-led regional order has been consistently pursued through three sets of policies: supporting U.S. leadership in multilateral institutions, making contributions to U.S. military initiatives, and endorsing the values and liberal order championed by the United States. Cook acknowledges factors that lead to an emerging pattern of relations favorable toward China: asymmetric economic interdependence; the positive attitudes of business leaders and public opinion toward China's rise and bilateral trade; and fear of Chinese economic punishment. Yet, he also points to concern that China is a military threat and strong preference for a regional order unbalanced in favor of the United States, despite both academic and journalistic coverage as well as positions taken by former prime ministers in disagreement. The net effect is a growing tendency to hedge even heavier vis-à-vis China while deepening its bandwagoning with America.

Looking at South Korea from the perspective of the five cases examined in the other chapters, one gets a sense of a state where economic and political factors are working against heavy hedging, while security factors tend to generate a sense of dominance-denial. Despite the closest military ties of any country with the United States, it is drawn to China for its impact on security on the Korean Peninsula. Park describes a more complex patchwork of Sino-U.S. relations and regional responses than other authors do, suggesting that the North Korean problem differs from the problems in the South China Sea and its vicinity. He presents a more positive outlook of South Korea's president toward China than other authors attribute to leaders in the states they cover. Indeed, he refers to her response as light hedging based on economic pragmatism in regard to the Asian Infrastructure Investment Bank and heavy hedging as far as security is concerned, as seen in the standoff over Air Defense Identification Zones and in the memo of understanding on trilateral intelligence sharing. With Seoul's decision on Terminal High Altitude Area Defense (THAAD) awaited, ambiguity over the type of hedging remains.

Tipping the balance toward lighter hedging, some may calculate, is the political dimension, where Seoul has leaned toward Beijing and away from Tokyo even without throwing its weight into an anti-Japan strategic coalition. Thus, the direction and degree of hedging varies greatly from domain to domain, generating an air of ambiguity about Korea's strategic position. A widening Sino-U.S. divergence seems to pose a greater dilemma for South Korea than for the countries treated in the other papers. There is less doubt on how India, Australia, and even Singapore and Indonesia would respond to a wider great power divergence. Given uncertainty about what to do if Sino-U.S. relations turn more adversarial and about how the North Korean factor will play out, South Korea's hedging appears to be distinctive. Domestic opinion also complicates hedging behavior, combining relative optimism about China with faith in the U.S. alliance. Yet, any disapproval from China regarding the ROK-U.S. alliance would aggravate the Korean public's perception of China and reduce the space of light hedging, potentially turning the response more to heavier hedging and putting Seoul in a very difficult position. Park has indicated that as far as security is concerned, Seoul is already closer to heavy than to light hedging.

With six cases under consideration, comparisons naturally turn to outliers. Rather than identifying them on the basis of estimated military vulnerability or economic dependency on China, as if other factors do not matter, all of the authors introduce additional factors.

Yes, the immediacy of the threat from China and the degree of confidence in a state that would be willing to balance against China matter, but variations depend on other factors.

Kuik explains differences in the type of hedging in terms of domestic elite legitimization. This flies in the face of prevailing international relations theories, pointing to elite authority and national identities and how they are contested within each state. Twining views the national identity barrier (the old non-aligned baggage) in India as changing, as that country's unique way of looking at the outside world (keeping it out of the Cold War order) is losing force. In response to China's security behavior and territorial threat (raising identity as well as realist concerns), India is losing its obsession with an independent foreign policy and resorting to heavy hedging shading into overt balancing. Cook finds no reason to expect that Australia would be the most overt in balancing China—after all, it has the most strategic depth located in the third island chain and the greatest trade dependency exacerbated by the

high proportion of natural resource exports not part of global value chains. Instead, he points to the tradition of thought focused on shared values with the United States. Most puzzling for some is the comparison showing that South Korea has thus far maintained a relatively lighter hedging vis-à-vis China, perhaps along with Malaysia. How could such a close U.S. ally so dependent on outside military support be so cautious about engaging in hedging behavior, such as approving the deployment of THAAD? To do so would, arguably, mean a shift to heavy hedging, at least in China's eyes, although the allied missile defense system targets North Korea.

The realist explanation for South Korea's straddling away from heavy hedging is that it views North Korea as the more serious, more imminent threat, and considers China to be in an ambivalent position inclined to put some pressure on the North, even if the primary source of pressure and deterrence is South Korea's ally, the United States. The liberal explanation is a high degree of economic dependency on China—less than that of Australia as a percentage of total trade, but possibly more consequential because of the massive role of South Korean exports to China with many being used by Korean firms to manufacture items for export from China. We should not dismiss the national identity explanation seen to apply to the other countries studied. It is not just the North Korean threat, but reunification aspirations that matter, and the search for regionalism with Seoul in a central role matters as well. The anomaly of South Korea's relatively light approach to hedging has various possible roots, which comparisons compel us to study further.

ENDNOTES

1. See, for instance, Alastair Iain Johnston and Robert Ross, "Conclusion," in Alastair Iain Johnston and Robert Ross, eds., *Engaging China: The Management of an Emerging Power* (New York: Routledge, 1999), p. 280 & p. 288; Ian Storey, "Singapore and the Rise of China: Perceptions and Policy," in Herbert Yee and Ian Storey, eds., *The China Threat: Perceptions, Myths and Reality* (London: RoutledgeCurzon, 2002), p. 219; Chien-peng (C.P.) Chung, "Southeast Asia-China Relations: Dialectics of 'Hedging' and 'Counter-Hedging,'" in *Southeast Asian Affairs 2004* (Singapore: ISEAS, 2004), p. 35; Evelyn Goh, *Meeting the China Challenge: The U.S. in Southeast Asian Regional Security Strategies*, Policy Studies 16 (Washington, DC: East West Center Washington, 2005); Evan S. Medeiros, "Strategic Hedging and the Future of Asia-Pacific Stability," *The Washington Quarterly*, Vol. 29, No. 1 (2005), pp. 145-167.
2. This conception differs from a widely accepted definition in the literature, which treats hedging as a "middle position" where a state "avoids having to choose one side at the obvious expense of another." See Goh, *Meeting the China Challenge*, p. viii; David Kang, *China Rising: Peace, Power, and Order in East Asia* (New York: Columbia University Press, 2007), p. 53. This study, however, suggests that hedging is *not just* a middle position, but also an *opposite* position, which involves an adoption of two sets of contradictory options aimed at keeping a fallback position.
3. On risks and tradeoffs associated with alignments, see Glenn H. Snyder, "The Security Dilemma in Alliance Politics," *World Politics*, Vol. 36, No. 4 (July 1984), pp. 461-495; Thomas J. Christensen and Jack Snyder, "Chain Gangs and Passed Bucks: Predicting Alliance Patterns in Multipolarity," *International Organization*, Vol. 44, No. 2 (Spring 1990), pp. 137-168; Michael N. Barnett and Jack S. Levy, "Domestic Sources of Alliances and Alignments: The Case of Egypt, 1962-73," *International Organization*, Vol. 45, No. 3 (Summer 1991), pp. 369-395; James D. Morrow, "Arms Versus Allies: Trade-Offs in the Search for Security," *International Organization*, Vol. 47, No. 2 (Spring 1993), pp. 207-233.
4. For a perceptive analysis of "fallback" policy as a small-state strategic behavior under uncertainty, see Yuen Foong Khong, "Singapore: A Time for Economic and Political Engagement," in Johnston and Ross, *Engaging China*, pp. 109-128; Khong, "Coping with Strategic Uncertainty."

5. Hedging, accordingly, is construed in this study as a *broad* strategic orientation consists of a bundle of policies, and not a single policy or strategy.
6. See *Oxford English Dictionary*. See also Francis Grose's *1811 Dictionary of the Vulgar Tongue*.
7. See, for example, Niall Ferguson, *The Ascent of Money: A Financial History of the World* (London: Penguin, 2009), p. 226; Ralph D. Stiles, "The Effect of Hedging upon Flour Mill Control," *Harvard Business Review* (October 1922), pp. 64-70; Holbrook Working, "Futures Trading and Hedging," *The American Economic Review*, Vol. 43, No. 3 (June 1953), pp. 314-343; Raija Markkanen and Hartmut Schroder, eds., *Hedging and Discourse: Approaches to the Analysis of a Pragmatic Phenomenon in Academic Texts* (Berlin & New York: Walter De Gruyter, 1997), pp. 235-248; Ken Hyland, "Writing Without Conviction? Hedging in Science Research Articles," *Applied Linguistics*, Vol. 17, No. 4 (1996), pp. 433-454; Antoine Yoshinaka and Christian R. Grose, "Ideological Hedging in Uncertain Times: Inconsistent Legislative Representation and Voter Enfranchisement," *British Journal of Political Science*, Vol. 41, Issue 4 (October 2011), pp. 765-794.
8. This framework is adapted from Cheng-Chwee Kuik, "The Essence of Hedging: Malaysia and Singapore's Response to a Rising China," *Contemporary Southeast Asia*, Vol. 30, No. 2 (August 2008), pp. 159-185; and "Smaller States' Alignment Choices: A Comparative Study of Malaysia and Singapore's Hedging Behavior in the Face of a Rising China" (Ph.D. dissertation, Johns Hopkins University, 2010), pp. 126-131.
9. See Randall Schweller, "Managing the Rise of Great Powers: History and Theory," and Khong, "Singapore: A Time for Economic and Political Engagement," both in Johnston and Ross, *Engaging China*, pp. 1-31 and pp. 109-128, respectively.
10. This term is adapted from "counter-dominance," coined by Amitav Acharya, "Containment, Engagement, or Counter-Dominance: Malaysia's Response to the Rise of China," in Johnston and Ross, *Engaging China*, pp. 129-151.
11. Indirect-balancing overlaps but it is not exactly the same as "soft-balancing", which refers to an act of maintaining an informal or loose form of military cooperation to check on a potential threat. See Khong, "Coping with Strategic Uncertainty," and Evelyn Goh, "Great Powers and Hierarchical Order in Southeast Asia: Analyzing Regional Security Strategies," *International Security*, Vol. 32, No. 2 (Winter 2007/2008), pp. 113-157
12. This composition is neither exhaustive nor definitive. Different writers may have different conceptual configurations – with slightly varying numbers of constituent options – depending on their analytical focus.

