Measuring Strategic Hedging

Abstract

Strategic hedging has emerged as a new concept in the international security literature. This approach allows for a more integrated analysis of hard and soft power. The strategic hedging research program, however, is in its early stages. This paper represents the first attempt to measure the core components of a state's strategic hedging capability by means of a composite index. This index is applied to a sample of seven leading second-tier states in a comparative case study. The results indicate that China tops the strategic hedging capability index and scores significantly higher than the other second-tier states.

Keywords: Strategic Hedging Behavior; Strategic Hedging Capability Index; State's Strategic Hedging; Second-tier States.

1 Introduction

Balance of power is a very old concept in international relations that has been addressed by several scholars from different schools within the field of international relation. This theory has emerged in Western Europe three centuries ago, and it remains highly useful for explaining great powers' behavior under different international systems. The balance of power theory, in general, is based on the anarchic structure of the international system, with no global authority that coercively governs the interactions.
between autonomous nation-states (Waltz, 1979). Hence, states seek to improve their capabilities relative to one another either by increasing their own power, or by embarking upon a policy of alliances (Waltz 1979).

In the wake of the Second World War, the global system turned from multipolarity to bipolarity. The Cold War period was more peaceful and more secure because of nuclear deterrence, which has created a "balance of threat" between the United States and the Soviet Union (Walt, 1985; Waltz, 1993). The breakup of the Soviet Union in 1991 turned the system in a unipolar one. The United States has become the only leader of the global system through an overwhelming superiority in economic and military capabilities (Huntington, 1999; Ikenberry, Mastanduno, et al. 2008:1). Several second-tier states have attempted to transform the international system from unipolarity to multipolarity (Layne, 1993:9-10; Monteiro, 2011/2012:10). These included efforts improving competitiveness while avoiding direct confrontation with the system leader, e.g., the BRICs (Brazil, Russia, India, and China) evolved from a mere concept into a more formal political grouping to maximize leverage, and to avoid negative attention by hiding in a group (Glosny, 2010:100).

The absence of balancing in a traditional understanding has led to the emergence of new concepts helping to understand the balance of power such as "hard power" and "soft power" (Nye, 1990, 2004; Pape, 2005). Scholars have attempted to better understand the relationship between hard and soft power, e.g., in his study about China's policy in the Middle East, Alterman explained that "Chinese power in the region is destined to become more balanced between hard and soft power over time" (Alterman, 2009:75).
Recently, the concept of strategic hedging has been introduced in an effort to improve upon the concept of soft balancing. More specifically, it has been used to analyze situations where the second-tier hedging states attempt to improve their competitive ability (military and economic) while avoiding direct confrontation with the system leader. What makes the strategic hedging approach particularly interesting is that it addresses a wider range of strategies than hard balancing and also has a much stronger connection to system structure than the soft balancing concept (Tessman & Wolfe, 2011; Tessman, 2012; Wolfe, 2013).

This article aims to measure the core components that contribute to a second-tier state’s strategic hedging capability and as such provides a comparative snapshot of those components by means of a composite index. The leading seven second-tier states have been selected for comparative case study (China, France, Germany, India, Japan, Russia, and UK)\(^1\).

In this paper, we first review the meaning of strategic hedging in international relations. Secondly, we present three basic standards with six sub-indicators that can be used to measure a state's strategic hedging capability. In the third section, we present the specification of the models and datasets after which we examine the leading seven second-tier states as comparative case study for the year 2013. In the last section, we analyze the results, offer some conclusions, and outline ways to improve the measurement of strategic hedging in the future.

\(^1\) The greatest seven second-tier states were selected on the basis of the largest six economic and/or military powers in the world (Except leader system; the United States).
2 What is Strategic Hedging?

Hedging in general or even strategic hedging particularly are not new concepts in the context of international relations literature. This behavior is mostly used by smaller states as a strategic option to maximize gains and avoid the dependency of the great powers (Goh, 2007/2008). However, hedging could also be used by the great powers in anticipation of the emergence of a potential risk to threaten security in light of the uncertainty of the future relations (Art, 2004; Medeiros, 2005 / 2006). We therefore contend that the states use strategic hedging in order to counter potential risks in the case of uncertainty. This behavior involves two contradictory trends: (1) improving competitiveness, (2) maintaining mutual relations and avoiding direct confrontation.

The present international system goes through a phase of fundamental change as the present unipolarity gives way to a process of power deconcentration. Under such conditions strategic hedging becomes an attractive alternative for other strategies such as balancing, bandwagoning, and buckpassing (see, Tessman, 2012:192). Especially for second-tier states it becomes a behavior of choice vis-à-vis the system leader. It helps second-tier states to face specific kinds of uncertainty in order to improve their security position in case the relationship with the system leader would deteriorate (Tessman & Wolfe, 2011:236; Tessman, 2012:192). Strategic hedging aims to find a balance between hard and soft balancing; where the hedging state seeks to improve its competitive ability (military and economy) while at the same time avoiding direct confrontation with the system leader. We operate under the assumption that there is a mechanism which indicates when strategic hedging occurs in the international system and when it is not (Tessman & Wolfe, 2011:220; Tessman, 2012:193). In order to be considered a case of
strategic hedging, the second-tier state’s behavior must be in line with this mechanism, which has three main features:

1. Support the economic capacity in order to be ready to accept domestic and international costs in the short-term and to increase the strategic reserves of public goods to insure against security threats in light of the uncertainty of the continued provision of subsidies that are provided by the system leader.

2. Improve the military capability in anticipation of a confrontation with the system leader while at the same time avoiding of outright provocation of this leader by large increased in the military arsenal or by joining military alliances against the system leader.

3. Coordinate the decision centrally at the highest levels of government because it addresses important issues related to the national security interest.

3 Indicators of Strategic Hedging Capability

Strategic hedging is a relative and intangible concept that is inherently difficult to quantify. In order to facilitate the comparison we create a composite index of strategic hedging determinants. Tessman and Wolfe have previously pointed to three primary resources that generate strategic hedging; economic capacity, military power, and central government. Other characteristics included are improvement of competitive ability of the hedging state, avoidance of direct confrontation of the system leader, willingness to accept the costs and coordination at the highest levels of government (Tessman & Wolfe,
Our index takes these three pillars as a foundation\(^2\), but expands on them and comprises six sub-indicators: gross domestic product (GDP), foreign exchange and gold reserves, government debt, military expenditure, growth of military arsenal, and democracy. The first three indicators relate to economic capability, the next two to military power, and the last one to decision-making capability. Figure 1 below illustrates the six factors that comprise our strategic hedging index.

\(^2\) Specific number of indicators has been allocated to measure each of these three pillars, according to the importance of each one in the implementation of hedging policies.
Figure 1: Components of Strategic Hedging

Strategic Hedging

Democracy

Decision-making capability

Military Ability

Growth of Military Arsenal

Military Spending

Economic Capacity

Gross Domestic Product

Reserve of Foreign Exchange

Government Debt
3.1 Economic Capacity:

An increase in the relative economic power leads to increase the nation's international political influence where this economic power could be harnessed for the purposes of foreign policy (Zakaria, 1998). Cheng Gao underlined that the rising power during the industrial age sought to accumulate wealth in order to use this wealth in the restructuring of the international system (Gao, 2011). Given the importance of economic power in the implementation of strategic hedging behavior, three economic indicators are used to measure the strategic hedging ability (gross domestic product, foreign exchange reserves, and government debt).

3.1.1 Gross Domestic Product (GDP):

The Gross Domestic Product is the market value of all final goods and services produced within a country in a given period of time (Mankiw & Taylor, 2006:468). In fact, there is a strong correlation between GDP levels and all important factors contributing to people's welfare, such as improving nutrition, health care, telecommunications, and life expectancy (Goossens et al, 2007:16). Lieber and Alexander confirmed the importance of measuring internal balancing in proportion to the GDP (Lieber & Alexander, 2005). Economic capacity has also played an important role in determining the future of relations between the Great Powers, e.g., GDP is a significant indicator of military victory in great power warfare (Zuljan, 2003). Harrison also noted that the economic superiority of the Allies in World War II gave them an overwhelming advantage on the battlefield, which led to the defeat of the Axis powers (Harrison,
Consequently, GDP is an important criterion for measuring a strategic hedging capability; it supports the national economy, helps the provision of foreign aid, and increases the ability to pay the additional costs resulting from the hedging policies.

3.1.2 Foreign Exchange and Gold Reserves:

Foreign exchange reserves are assets held by central banks and monetary authorities; usually this reserve consists of gold and various global currencies such as US dollar, euro, pound sterling, and yen. Central banks attempt to preserve the liquidity of foreign exchange reserves in order to meet payments in foreign currency and to confront financial crises (Zhang, et al. 2013:138). Undoubtedly, foreign exchange reserve plays a significant role to hedge overall macroeconomic risks (Li, et al. 2012:1524). High volume of foreign exchange reserve and gold makes the hedging state ready to accept domestic and international costs in the short-term as part of strategic hedging. Consequently, Foreign exchange reserve is used as a positive indicator to measure strategic hedging.

3.1.3 Government Debt:

Government debt is the debt owed by a central government. A process of establishing and implementing a strategy for prudently managing this debt is called "Government Debt Management". The aim of this process is to ensure that the government’s financing needs are met efficiently in conjunction with the meet the needs of government borrowing (Wheeler, 2004:4). Recently, government debt relative to GDP has risen in
several great powers more than at any time since World War II. This ratio is projected to grow for years to come. Policymakers in these countries seek to increase tax revenues and reduce public spending that means they are not willing to accept additional costs (M.C.K, 2013). In the meantime, increasing government debt ratio of GDP could undermine the implementation of hedging policies therefore used as negative indicator.

3.2 Military Power:

Unlike hard strength standards or standards of soft power, military power is a double-edged sword from the standpoint of strategic hedging. While Strategic hedging involves some promotion of military capabilities, it seeks to avoid provoking the system leader whether through increasing the military arsenal provocatively or through entering into an alliance against the system leader\(^3\) (Tessman & Wolfe, 2011:220; Tessman, 2012:204). In the meantime, we chose two indicators, one positive and the other negative in order to measure the impact of military power on the strategic hedging.

3.2.1 Military Expenditure:

The financial management of the entire military sector is essential to protect the state and its population against internal and external threats. Military spending in the strategic hedging framework is somewhat similar to the arms race approach; both of them occur in peacetime and involve the gradual increase in armaments resulting from conflicting purposes or mutual fears in light of the case of uncertainty (Huntington, 1958:41; Tessman & Wolfe, 2011:220). In general, increase the military expenditure leads to

\(^3\) In the absence of any military alliance against the United States at the present time, we have omitted the measurement of external balancing in this search.
improve the competitive military ability of the hedging state. The size of military spending therefore is one of the positive indicators to measure the hedging level\textsuperscript{4}.

3.2.2 \textit{Growth of Military Arsenal:}

While improving competitive military ability is essential to strategic hedging behavior, the hedging state should avoid an extensive arms buildup that might disturb the system leader and lead to a dispute, a crisis, or a military confrontation (Tessman, 2012:204). Moreover, there is a negative causal relationship between military spending and economic growth especially when military expenditure leads to negative economic growth (Chang, et al. 2011:2416). In this context, military spending relative to GDP is used as a critical negative indicator for measuring strategic hedging capability.

3.3 \textit{Central Government:}

Implementation of the sovereign decision is one of the basic pillars of the ones that complement the strategic hedging behavior. Rich nations does not routinely become great powers, they need a strong central government to harness the economic and military power for the purposes of foreign policy, which explains why the United States was a minor power in the late nineteenth century although it was the richest country in the world, including military, economic, political, and diplomatic measures (Zakaria, 1998). Therefore it was necessary to allocate at least one indicator to measure the central authority.

\textsuperscript{4} There are other indicators to measure military power such as global militarization index (GMI), the number of military personnel, and the level of military equipment. However, due to the lack of accurate figures we only use military spending index.
3.3.1 Democracy:

Proportional Representation (PR) electoral rules have a significant positive effect on economic growth; that due to PR systems lead to the expansion of government spending on education and health, property rights protection and free-trade (Knutsen, 2011:83). Democracy also allows to a greater number of citizens eligible to participate in the proposal and the introduction of laws, and it is positively related to household income (Andersen, 2012:389). Despite these several benefits, the high level of democracy leads to a reduction of the central authority's ability to make a decision, and thus to a decline in coordination at the highest levels of government, which is considered one of the most important conditions for strategic hedging. In the democratic peace theory, Michael Doyle has pointed out that liberal principles and institutions hinder and disrupt the pursuit of balance-of-power politics (Doyle, 1983). Accordingly, democracy is used as a negative indicator of strategic hedging.

4 Sources and Description of Data:

All data have been taken for the year 2013. The leading seven second-tier states have been selected on the basis of the largest six economic and/or military powers in the world (Except the United States as a system leader). These seven states have been selected for a comparative case study (China, France, Germany, India, Japan, Russia, and UK). The study uses six different datasets that helps to measure the components of strategic hedging (gross domestic product, reserve of foreign exchange, government debt of GDP, military expenditure, military expenditure of GDP, and democracy). Table 1 below illustrates the sources of these data.
Table 1: datasets & Source in 2013

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<td>2.3</td>
<td>79.9</td>
</tr>
</tbody>
</table>

**Source** | IMF | CIA | CIA | SIPRI | SIPRI | Democracy Ranking
---|-----|-----|-----|-------|-------|-------------------

5 Model and Estimations:

Strategic hedging is a relative and intangible concept that is inherently difficult to quantify. In order to facilitate the comparison process, we use Min-Max indicators that allow having an identical range [0, 1] by subtracting the minimum value and dividing by the range of the indicator values. For negative indicators, we use the same model but we work with absolute values. This method follows an OECD publication on constructing composite (OECD, 2008:30):

\[
I_{qc}^t = \frac{X_{qc}^t - \min_c(X_{c}^{t_0})}{\max_c(X_{c}^{t_0}) - \min_c(X_{c}^{t_0})}
\]

6 Results: Country analyses

The results for the top seven second-tier states in 2013, ranked by score of strategic hedging, are presented in Table 2. China easily wins the strategic hedging race according
to our index, with a score of 5.61 points that about 3.33 points higher than Russia's. Russia ranks second with 2.28 points; then India, Japan, Germany with 2.02, 1.98, 1.82 points respectively. France and the United Kingdom run as close sixth and seventh with 1.57 and 1.40 points respectively.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>GDP</th>
<th>Reserve of Foreign Exchange</th>
<th>Government Debt</th>
<th>Military Expenditure</th>
<th>Growth of Military Arsenal</th>
<th>Democracy</th>
<th>Total Scores</th>
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<td>0.0846</td>
<td>1.0000</td>
<td>0.1717</td>
<td>1.9870</td>
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<td>0.6700</td>
<td>0.0017</td>
<td>0.8710</td>
<td>0.0000</td>
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<td>0.1078</td>
<td>0.6129</td>
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<td>0.5806</td>
<td>0.0534</td>
<td>1.4021</td>
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</tbody>
</table>

7 Country analyses

The following section summarizes the results for the top second-tier states that were ranked by the strategic hedging index for the year 2013.

7.1 China

The rise in China's strategic hedging capabilities in recent years has been nothing short of spectacular; increasing defense budgets, significant economic growth, and a strong central government while Beijing the same time avoids direct collision with Washington (Wang, 2005; Wolfe, 2013). China has a distinctive character in its international behavior that exhibits elements of both threat and peaceful intentions (Breslin, 2013:633-634; Dreyer, 2007:651; Schweller & Pu, 2011:53).
Since the adoption of market-oriented economic reforms after Mao’s death, the People’s Republic of China (PRC) has enjoyed rapid economic growth. In recent years, it surpassed Germany and displaced Japan to become the world’s second largest economy in 2012. If current trends continue, China will become America’s international equal in the 2020s (Bandow, 2012:488; Layne, 2012; Schweller & Pu, 2011:52). Chinese diplomacy is increasingly seeking to achieve multilateralism. It is willing to bear the extra expense in the short term in order to reach this objective, e.g., in order to obtain an active role in the international economy, China’s leaders have accepted several concessions to comply with the country’s WTO obligations (Aaronson, 2010:41). China's reserves of foreign currency have already exceeded its needs with a current account surplus and a capital account surplus for more than two decades, making China the largest creditor of the United States (Yongding, 2011). China has used its economic superiority to support its position in the international community and to protect itself from Washington. Following the global financial crisis in 2008, China's central bank suggested abandoning the U.S. dollar as the international reserve currency, and the establishment of a new global system controlled by the International Monetary Fund (Anderlini, 2009). Moreover, China develops its military capabilities; it seeks to construct a "blue-water fleet" that could change the balance of power in the Western Pacific and Indian Oceans. Beijing also attempts to nullify key U.S. advantages by Chinese space-based and cyberwarfare technology initiatives that constitute a threat to the strategic interests of the United States (Lei, 2008:139). For instance, according to a RAND report, Washington will not be able to defend Taiwan from Chinese military attack by 2020 (Newmyer, 2009:205). Furthermore, China's military budget has increased in recent
years, amounting to approximately 10.1% of the total military expenditure in the world (Figure 2).

**Figure 2: Global Distribution of Military Expenditure in 2013**

Since the start of the new millennium, several Chinese attempts have appeared to dispense with the current aid provided by U.S., e.g., China's participation in UN peacekeeping missions has increased, which made China occupies a more appreciative position in the international community (Stähle, 2008:631). Finally, China seeks to develop closer ties with other great powers like the European Union to support its bargaining position vis-à-vis Washington and to hedge against "the possibility of a sharp deterioration in Sino-American relations" (Garrett, 2010:7249). For the reasons mentioned above, China constitutes a perfect example of the strategic hedging state and tops the strategic hedging index with a score that is significantly higher than Russia, which occupies the second place (Figure 3).
Since the breakup of the Soviet Union in 1991, significant structural changes have undergone on the Russian economy such as the end of the dominance of state ownership of industry, large-scale privatization campaign, and liberalization of prices, even the military sector was not immune to these changes (Cooper, 2013:58). However, Russian economy still retains several of the features inherited from the central economic system in the Soviet Union, which focuses on the military sector above all through enhancing the country’s military capability (Cooper, 2013:63). Although the Russian military spending is less than China's, the Russian army is considered the second force in the world after the U.S. military, according to the (GFP) ranking. Russia could rely on two givens to restore its world status: First, its capabilities as a nuclear power that match the nuclear capabilities of the United States. Secondly, its Security Council membership with veto power, which kept on Moscow's role in influencing the strategic global UN resolution (Rywkin, 2012:235). Moreover, the Russian government debt is very low; Russia located
in recent centers at the ranking of the world's debtors, so it seems that, compared with the other great powers, Russia more willing to implement the sovereign financial decisions that related with national security issues. The decline of democracy and the emergence of a mobilization authoritarian regime have also led to the implementation of the Russian sovereign resolution more effectively during Putin’s term, who declared his goal as the "dictatorship of law" to overcome the legal fragmentation in the federal system (Horvath, 2011:1; Sakwa, 2008:879). In that light, Russia occupies the second place in the strategic hedging index (Figure 4).

Conversely, Russia obtains a much smaller score than China in our index for several reasons: First, the ratio of military spending to GDP is high in Russia, which tends to provoke the United States (SIPRI, 2013). Secondly, Russian attitudes toward the United States remain hostile since the Soviet era; and there is a thought that Washington is behind all kinds of trouble afflicting Russia (Rywkin, 2012:236). Consequently, Russia's behavior closer inclines more to a hard power approach than to strategic hedging. Finally, the Russian GDP is much smaller than other major countries’ such as China, Japan, and
Germany (Figure 5), and the significant economic growth capabilities could only be secured through high prices for oil and gas, so Russian economy is susceptible to large fluctuations in the oil price, which could induce a rupture in the Russian economy (Benedictow, et. al, 2013:400; Rutland, 2008:1052).

![Figure 5: Gross Domestic Product by Countries, 2013 (Billion US$)](image)

Source: International Monetary Fund

7.3 India

India is rapidly emerging as a great power in the world; according to the World Bank, the country's national income has increased more than threefold over the last decade, while military spending doubled over the same period to become the largest arms importers in the world (SIPRI, 2013). New Delhi seeks to take advantage of Washington's support to ensure a power balance in Asia against China, especially in the military field; the Indian Navy participated in the Malabar exercises in the Bay of Bengal with U.S. in 2007. India also seeks to seal arms deals with Washington, like acquire the maritime version of F-35 "the Joint Strike Fighter" (Evans, 2011:106). Undoubtedly,
India has not reached the level of other great powers militarily or economically yet, but it has got a good rank in strategic hedging index due to its geopolitical position, rising foreign exchange reserves, and the low level of public debt (Table 3).

<table>
<thead>
<tr>
<th>Rank</th>
<th>GDP</th>
<th>Reserve of Foreign Exchange</th>
<th>Government Debt</th>
<th>Military Expenditure</th>
<th>Growth of Military Arsenal</th>
<th>Democracy</th>
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<td>Germany</td>
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</tbody>
</table>

7.4 Japan

For contradictory reasons, Japan comes in the middle of the index. Economically, Japan has a huge national income, a large amount of foreign currency reserves, a diversified economy between industry and agriculture, and a great activity in the export process (Okabe, 2013:134). On the other hand, Japanese economy suffers from a high level of government debt; Tokyo located in an advanced position at the ranking of the world's debtors. In an attempt to rein in public debt in recent years, the Japanese government sharply raised the consumption tax in order to increase government revenue, which led to Japan's economy contracted dramatically (Pandey, 2014).

Militarily, Japan has followed "Yoshida Doctrine" based on a pacifist constitution, which is good to avoid provocation the leader system. But that resulting in the ratio of military spending to GDP in Japan is very low so that the United States itself has asked
from Tokyo to increase its military spending recently (Evans, 2011:102). Moreover, Japan's military spending did not rise at all during the last decade, unlike the other major nations’ such as China, Russia and India (Figure 6).

**Figure 6: Military Expenditure by Countries, 2000-2013 (Million US$)**

![Military Expenditure Chart]

*Source: SIPRI Military Expenditure Database*

However, the defense white paper shows that Japanese Army is one of the best well-equipped "invisible" armies in the world; Tokyo could have quickly one of the strongest armies in the world due to its high-spec armaments and its ability to manufacture a nuclear bomb within a few months (Fitzpatrick, 2013). As well as, following territorial dispute with China and North Korea's threats, Japan's new government seeks seriously to change the country's pacifist constitution, which would change Japanese rank in strategic hedging index (SINA, 2013). Before this is done, the economic capacity remains the cornerstone in supporting Japan's competitive position in front of the great powers (Figure 7).
7.5 EU (Germany, France, and UK)

In the first half of the last century, Germany, UK, and France were on top of the great powers in the world. After World War II, the U.S. has formed a strategic ally of Western Europe countries. The North Atlantic Treaty Organization (NATO) has become a cornerstone in ensuring the U.S. and European security. During the years of the Cold War, the transatlantic relations have been very close with instances of tension and temporary discord such as Suez Crisis in 1957, Vietnam war in the 1960s, and de Gaulle’s decision to pull France from NATO in 1966 (Gaddis, 2005; Nielsen, 2013:85). After the demise of the Soviet Union risk, EU countries lost several competitive advantages in the military sphere, and European military spending has decreased steeply, resulting in U.S. military spending was nearly twice that of the EU25’s by the early 2000s (SIPRI, 2013). The decline in the European armies' performance has clearly emerged during the Yugoslav civil wars; the conflict in Kosovo did not resolve until the intervention of the U.S. military, which carried out most of the combat operations (Dinan,
Following NATO's military operation in Libya 2011, NATO Chief Anders Fogh Rasmussen said "significant shortfalls in a range of European capabilities - from smart munitions, to air-to-air refueling, and intelligence surveillance and reconnaissance"; this process confirmed that the European countries could not have succeeded without the US’ technical support (Nielsen, 2012). On the other hand, different political culture between the Europeans and their American partners have made this partnership is not fair, and it is often in the interest of Washington, e.g., in a poll, all recent presidential candidates, Democrats and Republicans alike, have announced that they would take military action unilaterally and without regard to international legitimacy if the American national interest demands that, while unlikely to find any European leader adopts this reckless statement (Nielsen, 2013:92).

Economically, although the European Union is the largest economic bloc in the world, the accession of its members to an economic and political union has made them lose the sovereign decision independence, e.g., participation in EU crisis management operations has an impact on the civil and military institutions in the member states, where ministries and national agencies have encountered a lot of difficulties to adapt administrative at various levels (Jacobs, 2012:414). In addition the EU leads to carrying the subordination of the other members' mistakes, e.g., the Greek crisis makes European leaders between two options; either providing immediate support to Greece and accept painful costs, or the Greek crisis would spread, which would cost much more than the previous option (Jones, 2010:22).

Politically, the different EU countries' positions of major international issues adversely affect the EU status as a politic and economic unified bloc, for instance, Britain’s Tony
Blair stood in the U.S. grade and supported the war on Iraq, while France’s Jacques Chirac and German Chancellor Gerhard Schroder opposed the war and joined the Russian position (Peterson, 2004:14-16). Recently in November 2012, the vote on Palestine's status in UN highlighted how deeply divided Europe is on the Israeli-Palestinian conflict; 14 EU members voting in support to upgrade the Palestinian Authority's observer status at the United Nations to "non-member state" from "entity," another 12 abstaining, and only 1 against the move (EueActiv, 2012).

Arguably, most EU countries have entered into an unbalanced partnership with Washington, and have relied heavily on subsidies that are provided by the system leader, especially military aid, resulting in losing several competitive abilities. Consequently, Germany, France, and UK have got modest centers in the strategic hedging index, with substantial convergence in competitiveness (Figure 8, 9, 10).

![Figure 8: Germany's Capability of Strategic Hedging, 2013](image)
8 Conclusion

As highlighted above, the present international system goes through a phase of fundamental change as the present unipolarity gives way to a process of power deconcentration. Under such conditions strategic hedging becomes an attractive alternative for other strategies such as balancing, bandwagoning, and buckpassing.
In general, the strategic hedging approach allows for a more integrated analysis of hard and soft power, it is a relative and intangible concept that is inherently difficult to quantify. We attempt to create a new measure of strategic hedging, incorporating both "soft" and "hard" power indicators.

This paper represents the first attempt to measure the core components of a state's strategic hedging capability and as such provides a comparative snapshot of those components by means of a composite index that facilitate the comparison process between states and access to the best results. This index comprises three basic dimensions (economic capability, military power and decision-making capability), which are broken down into six sub-indicators: gross domestic product (GDP), foreign exchange and gold reserves, government debt, military expenditure, growth of military arsenal, and democracy. Because second-tier states in the international system are likely to have the greatest incentives to engage in strategic hedging, the composite index developed in this paper is applied to a sample of seven leading second-tier states in a comparative case study.

The results indicate that China tops the strategic hedging capability index and scores significantly higher than the other second-tier states. Despite attempts by other great powers enter the competition on the sovereignty of the global system, this aim remains elusive in the foreseeable future; some this powers chose a direct confrontation with the system leader through behavior closer to the hard power, which led to isolation imposed on these countries by Washington (like Russia), other powers overreacted to follow a bandwagoning strategy with the United States, resulting in entering into an unbalanced
partnership with Washington and losing several competitive abilities (such as France, England, and Germany).

Of course, the question of measurement is only a part of the strategic hedging debate. A great deal of future research is needed to better understand how strategic hedging could change the unipolar system. However, from our perspective, this measure provides a novel means to capture and analyze important processes in international relations as it stimulates case studies, as well as both quantitative and qualitative analysis.

In what will hopefully be an annual endeavor, we will attempt to improve this index by building a larger data set, and increasing the number of countries included as priorities for future iterations.

9 References


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