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Course Correction

How to Stop China’s Maritime Advance

Ely Ratner

The South China Sea is fast becoming the world’s most important waterway. As the main corridor between the Indian and Pacific Oceans, the sea carries one-third of global maritime trade, worth over $5 trillion, each year, $1.2 trillion of it going to or from the United States. The sea’s large oil and gas reserves and its vast fishing grounds, which produce 12 percent of the world’s annual catch, provide energy and food for Southeast Asia’s 620 million people.

But all is not well in the area. Six governments—in Brunei, China, Malaysia, the Philippines, Taiwan, and Vietnam—have overlapping claims to hundreds of rocks and reefs that scatter the sea. Sovereignty over these territories not only serves as a source of national pride; it also confers hugely valuable rights to drill for oil, catch fish, and sail warships in the surrounding waters. For decades, therefore, these countries have contested one another’s claims, occasionally even resorting to violence. No single government has managed to dominate the area, and the United States has opted to remain neutral on the sovereignty disputes. In recent years, however, China has begun to assert its claims more vigorously and is now poised to seize control of the sea. Should it succeed, it would deal a devastating blow to the United States’ influence in the region, tilting the balance of power across Asia in China’s favor.

Time is running out to stop China’s advance. With current U.S. policy faltering, the Trump administration needs to take a firmer line. It should supplement diplomacy with deterrence by warning China that if the aggression continues, the United States will abandon its neutrality and help countries in the region defend their claims. Washington should make clear that it can live with an uneasy stalemate in Asia—but not with Chinese hegemony.

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ON THE MARCH

China has asserted “indisputable sovereignty” over all the land features in the South China Sea and claimed maritime rights over the waters within its “nine-dash line,” which snakes along the shores of the other claimants and engulfs almost the entire sea. Although China has long lacked the military power to enforce these claims, that is rapidly changing. After the 2008 financial crisis, moreover, the West’s economic woes convinced Beijing that the time was ripe for China to flex its muscles.

Since then, China has taken a series of actions to exert control over the South China Sea. In 2009, Chinese ships harassed the U.S. ocean surveillance ship Impeccable while it was conducting routine operations in the area. In 2011, Chinese patrol vessels cut the cables of a Vietnamese ship exploring for oil and gas. In 2012, the Chinese navy and coast guard seized and blockaded Scarborough Shoal, a contested reef in the Philippines’ exclusive economic zone. In 2013, China sent an armed coast guard ship into Indonesian waters to demand the return of a Chinese crew detained by the Indonesian authorities for illegally fishing around Indonesia’s Natuna Islands.

Then, in early 2014, China’s efforts to assert authority over the South China Sea went from a trot to a gallop. Chinese ships began massive dredging projects to reclaim land around seven reefs that China already controlled in the Spratly Islands, an archipelago in the sea’s southern half. In an 18-month period, China reclaimed nearly 3,000 acres of land. (By contrast, over the preceding several decades, Malaysia, the Philippines, Taiwan, and Vietnam had reclaimed a combined total of less than 150 acres.) Despite assurances by Chinese President Xi Jinping in September 2015 that China had “no intention to militarize” the South China Sea, it has been rapidly transforming its artificial islands into advanced military bases, replete with airfields, runways, ports, and antiaircraft and antimissile systems. In short order, China has laid the foundation for control of the South China Sea.

Should China succeed in this endeavor, it will be poised to establish a vast zone of influence off its southern coast, leaving other countries in the region with little choice but to bend to its will. This would hobble U.S. alliances and partnerships, threaten U.S. access to the region’s markets and resources, and limit the United States’ ability to project military power and political influence in Asia.
**MISSING: AMERICA**

Despite the enormous stakes, the United States has failed to stop China’s assertiveness in the South China Sea. For the most part, Washington has believed that as China grew more powerful and engaged more with the world, it would naturally come to accept international rules and norms. For over a decade, the lodestar of U.S. policy has been to mold China into what U.S. Deputy Secretary of State Robert Zoellick described in 2005 as “a responsible stakeholder”—which would uphold the international system or, at the least, cooperate with established powers to revise the global order. U.S. policymakers argued that they could better address most global challenges with Beijing on board.

The United States complemented its plan to integrate China into the prevailing system with efforts to reduce the odds of confrontation. U.S. Secretary of State Hillary Clinton spoke of the need to “write a new answer to the question of what happens when an established power and a rising power meet.” She was referring to the danger of falling into “the Thucydides trap,” conflict between an existing power and an emerging one. As the Athenian historian wrote, “It was the rise of Athens, and the fear that this inspired in Sparta, that made war inevitable.” Wary of a similar outcome, U.S. policymakers looked for ways to reduce tensions and avoid conflict whenever possible.

This approach has had its successes. The Paris climate accord and the Iran nuclear deal were both the direct result of bilateral efforts to solve global problems together. Meanwhile, U.S. and Chinese officials interacted frequently, reducing misperceptions and perhaps even warding off major crises that could have led to outright conflict.

Applying this playbook to the South China Sea, the Obama administration put diplomatic pressure on all the claimants to resolve their disputes peacefully in accordance with international law. To deter China from using force, the United States augmented its military presence in the region while deepening its alliances and partnerships as part of a larger “rebalance” to Asia. And although Beijing rarely saw it this way, the United States took care not to pick sides in the sovereignty disputes, for example, sending its ships to conduct freedom-of-navigation operations in waters claimed by multiple countries, not just by China.

Although this strategy helped the United States avoid major crises, it did not arrest China’s march in the South China Sea. In 2015,
repeating a view that U.S. officials have conveyed for well over a decade, U.S. President Barack Obama said in a joint press conference with Xi, “The United States welcomes the rise of a China that is peaceful, stable, prosperous, and a responsible player in global affairs.” Yet Washington never made clear what it would do if Beijing failed to live up to that standard—as it often has in recent years. The United States’ desire to avoid conflict meant that nearly every time China acted assertively or defied international law in the South China Sea, Washington instinctively took steps to reduce tensions, thereby allowing China to make incremental gains.

This would be a sound strategy if avoiding war were the only challenge posed by China’s rise. But it is not. U.S. military power and alliances continue to deter China from initiating a major military confrontation with the United States, but they have not constrained China’s creeping sphere of influence. Instead, U.S. risk aversion has allowed China to reach the brink of total control over the South China Sea.

U.S. policymakers should recognize that China’s behavior in the sea is based on its perception of how the United States will respond. The lack of U.S. resistance has led Beijing to conclude that the United States will not compromise its relationship with China over the South China Sea. As a result, the biggest threat to the United States today
THE FINAL SPRINT

The good news is that although China has made huge strides toward full control of the South China Sea, it is not there yet. To complete its takeover, it will need to reclaim more land, particularly at Scarborough Shoal, in the eastern part of the sea, where it currently lacks a base of operations. Then, it will need to develop the ability to deny foreign militaries access to the sea and the airspace above it, by deploying a range of advanced military equipment to its bases—fighter aircraft, antiship cruise missiles, long-range air defenses, and more.

The United States has previously sought to prevent China from taking such steps. In recent years, Washington has encouraged Beijing and the other claimants to adopt a policy of “three halts”: no further land reclamation, no new infrastructure, and no militarization of existing facilities. But it never explained the consequences of defying these requests. On several occasions, the United States, along with the Association of Southeast Asian Nations (ASEAN), the G-7, and the EU, criticized China’s moves. But each time, Beijing largely ignored the condemnation, and other countries did not press the issue for long.

Consider Beijing’s reaction to the landmark decision handed down in July 2016 by an international tribunal constituted under the UN Convention on the Law of the Sea, which ruled that most of China’s claims in the South China Sea were illegal under international law. The United States and other countries called on China to abide by the decision but took no steps to enforce it. So China simply shrugged it off and continued to militarize the islands and police the waters around them. Although the United States has continued to make significant shows of force in the region through military exercises and patrols, it has never made clear to China what these are meant to signal. U.S. officials have often considered them “demonstrations of resolve.” But they never explained what, exactly, the United States was resolved to do. With that question unanswered, the Chinese leadership has had little reason to reverse course.

For the same reason, U.S. President Donald Trump’s idea of reviving President Ronald Reagan’s strategy of “peace through strength” by beefing up the U.S. military will not hold China back on its own. The
problem has never been that China does not respect U.S. military might. On the contrary, it fears that it would suffer badly in a war with the United States. But China also believes that the United States will impose only small costs for misdeeds that stop short of outright aggression. No matter how many more warships, fighter jets, and nuclear weapons the United States builds, that calculus will not change.

DARE TO ACT
In order to alter China’s incentives, the United States should issue a clear warning: that if China continues to construct artificial islands or stations powerful military assets, such as long-range missiles or combat aircraft, on those it has already built, the United States will fundamentally change its policy toward the South China Sea. Shedding its position of neutrality, Washington would stop calling for restraint and instead increase its efforts to help the region’s countries defend themselves against Chinese coercion.

In this scenario, the United States would work with the other countries with claims in the sea to reclaim land around their occupied territories and to fortify their bases. It would also conduct joint exercises with their militaries and sell them the type of weapons that are known to military specialists as “counterintervention” capabilities, to give them affordable tools to deter Chinese military coercion in and around the area. These weapons should include surveillance drones, sea mines, land-based antiship missiles, fast-attack missile boats, and mobile air defenses.

A program like this would make China’s efforts to dominate the sea and the airspace above it considerably riskier for Beijing. The United States would not aim to amass enough collective firepower to defeat the People’s Liberation Army, or even to control large swaths of the sea; instead, the goal would be for partners in the region to have the ability to deny China access to important waterways, nearby coastlines, and maritime chokepoints.

The United States should turn to allies and partners that already have close security ties in Southeast Asia for help. Japan could prove especially valuable, since it already sees China as a threat, works closely with several countries around the South China Sea, and is currently developing its own defenses against Chinese encroachment on its outer islands in the East China Sea. Australia, meanwhile, enjoys closer relations with Indonesia and Malaysia than does the United States, as does India with Vietnam—ties that would allow
Australia and India to give these countries significantly more military heft than Washington could provide on its own.

Should Beijing refuse to change course, Washington should also negotiate new agreements with countries in the region to allow U.S. and other friendly forces to visit or, in some cases, be permanently stationed on their bases in the South China Sea. It should consider seeking access to Itu Aba Island (occupied by Taiwan), Thitu Island (occupied by the Philippines), and Spratly Island (occupied by Vietnam)—members of the Spratly Islands archipelago and the first-, second-, and fourth-largest naturally occurring islands in the sea, respectively. In addition to making it easier for the United States and its partners to train together, having forces on these islands would create new tripwires for China, increasing the risks associated with military coercion.

This new deterrent would present Beijing with a stark choice: on the one hand, it can further militarize the South China Sea and face off against countries with increasingly advanced bases and militaries, backed by U.S. power, or, on the other hand, it can stop militarizing the islands, abandon plans for further land reclamation, and start working seriously to find a diplomatic solution.

**KEEPING THE PEACE**

For this strategy to succeed, countries in the region will need to invest in stronger militaries and work more closely with the United States. Fortunately, this is already happening. Vietnam has purchased an expensive submarine fleet from Russia to deter China; Taiwan recently announced plans to build its own. Indonesia has stepped up military exercises near its resource-rich Natuna Islands. And despite President Rodrigo Duterte’s hostile rhetoric, the Philippines has not canceled plans to eventually allow the United States to station more warships and planes at Philippine ports and airfields along the eastern edge of the South China Sea.

But significant barriers remain. Many countries in the region fear that China will retaliate with economic penalties if they partner with the United States. In the wake of Trump’s withdrawal from the Trans-Pacific Partnership trade agreement, Southeast Asian countries are increasingly convinced that it is inevitable that China will dominate the economic order in the region, even as many are concerned by that prospect. This growing perception will make countries in the region
reluctant to enter into new military activities with the United States for fear of Chinese retribution. The only way for Washington to prevent this dangerous trend is to offer a viable alternative to economic dependence on China. That could mean reviving a version of the TPP or proposing a new and equally ambitious initiative on regional trade and investment. The United States cannot beat something with nothing.

Washington should also do more to shape the domestic politics of countries with claims in the South China Sea by publicly disseminating more information about China’s activities in the sea. Journalists and defense specialists currently have to rely on sporadic and incomplete commercial satellite images to understand China’s actions. The U.S. government should supplement these with regular reports and images of China’s weapons deployments, as well as of Chinese navy and coast guard ships and Chinese state-backed fishing vessels illegally operating in other countries’ exclusive economic zones and territorial waters.

Countries in the region will also be more likely to cooperate with Washington if they can count on the United States to uphold international law. To that end, the U.S. Navy should conduct freedom-of-navigation patrols in the South China Sea regularly, not just when Washington wants to make a diplomatic point.

Critics of a more muscular deterrent argue that it would only encourage China to double down on militarization. But over the last few years, the United States has proved that by communicating credible consequences, it can change China’s behavior. In 2015, when the Obama administration threatened to impose sanctions in response to Chinese state-sponsored theft of U.S. commercial secrets, the Chinese government quickly curbed its illicit cyber-activities. And in the waning months of the Obama administration, Beijing finally began to crack down on Chinese firms illegally doing business with North Korea after Washington said that it would otherwise impose financial penalties on Chinese companies that were evading the sanctions against North Korea.

Moreover, greater pushback by the United States will not, as some have asserted, embolden the hawks in the Chinese leadership. In fact, those in Beijing advocating more militarization of the South China
Sea have done so on the grounds that the United States is irresolute, not that it is belligerent. The only real chance for a peaceful solution to the disputes lies in stopping China's momentum. Beijing will not compromise as long as it finds itself pushing on an open door.

And in the event that China failed to back down from its revisionist path, the United States could live with a more militarized South China Sea, as long as the balance of power did not tilt excessively in China's favor. This is why China would find a U.S. threat to ratchet up military support for other countries with claims in the sea credible. Ensuring that countries in the region can contribute to deterring Chinese aggression would provide more stability than relying solely on Chinese goodwill or the U.S. military to keep the peace. Admittedly, with so many armed forces operating in such a tense environment, the countries would need to develop new mechanisms to manage crises and avoid unintended escalation. But in recent years, ASEAN has made significant progress on this front by devising new measures to build confidence among the region's militaries, efforts that the United States should support.

Finally, some critics of a more robust U.S. strategy claim that the South China Sea simply isn't worth the trouble, since a Chinese sphere of influence would likely prove benign. But given Beijing's increasing willingness to use economic and military pressure for political ends, this bet is growing riskier by the day. And even if Chinese control began peacefully, there would be no guarantee that it would stay peaceful. The best way to keep the sea conflict free is for the United States to do what has served it so well for over a century: prevent any other power from commanding it.
In a surprise move, the Trump administration has issued a statement on the South China Sea that is consistent with international law, grounded in historical evidence, and completely in line with the expectations of the United States’ allies and partners. It places the United States squarely behind the interests of Vietnam, Malaysia, Indonesia, Brunei, and the Philippines, all of which have serious disputes with Beijing. It’s a strong move—but the big question is how Washington will follow up on it.

In his statement on Monday, U.S. Secretary of State Mike Pompeo said he was aligning the U.S. position on China’s maritime claims in the South China Sea with the 2016 ruling of an international arbitral tribunal in The Hague. That ruling, in a case brought by the Philippines, comprehensively demolished China’s decades-old claims to maritime resources that go beyond those allowed by the United Nations Convention on the Law of the Sea (UNCLOS). China refused to even attend the tribunal, despite being a UNCLOS signatory, and fiercely denies the result.

In an alternate universe, one in which Rodrigo Duterte lost the Philippine presidential election in 2016 and Hillary Clinton won the White House, this statement would have been issued long ago. Duterte’s taking power, just 12 days before the arbitration ruling was announced, killed the chances of such an approach at the time even under then-U.S. President Barack Obama. It is easy to imagine it lying buried in a file for four years until some patient State Department officials felt able to revive the practice of diplomacy and working partnerships in the twilight months of Trump. But with the statement now nailed to the mast of U.S. policymaking in Asia, what should happen next?

China’s claims in the South China Sea fall into two types: “territorial claims” to the disputed rocks and reefs and “maritime claims” to the resources in the sea around those rocks and reefs. The United States, quite sensibly, has never taken a position on which country is the rightful owner of these territories. However, Pompeo’s statement breaks new ground by asserting that China has “no lawful territorial or maritime claim to (or derived from) James Shoal.”

This will be music to the ears of Malaysia because James Shoal (Beting Serupai in Malay, Zengmu Ansha in Chinese) is an entirely submerged piece of seabed about 50 miles from the coast of Borneo and more than 600 miles from China. China claims James Shoal as its “southernmost territory” because of a translation error by a Republic of China government committee in 1934. The committee used the Chinese word “tan” as a translation of “shoal.” Tan
means “sandbank,” and this bureaucratic mistake led to a piece of seabed becoming defined as land. In 1947, the translation was changed to ansha, which means “hidden sand,” but the territorial claim remained.

The other key parts of Pompeo’s statement followed the 2016 arbitration ruling in asserting that neither Scarborough Shoal (off the Philippine coast) nor any of the so-called Spratly Islands are actually islands in the full sense. That is, they are not large enough to justify an exclusive economic zone (EEZ) around them. An EEZ can stretch for up to 200 nautical miles around an island, incorporating a far larger area than the 12-nautical-mile territorial sea that a mere “rock” can generate. This is exactly what the Philippines would want Washington to say and backs up the findings of the arbitral tribunal.

But Pompeo went even further by rejecting any Chinese “maritime claim in the waters surrounding Vanguard Bank (off Vietnam), Luconia Shoals (off Malaysia), waters in Brunei’s EEZ, and Natuna Besar (off Indonesia).” Vanguard Bank is another underwater feature, like James Shoal. Luconia Shoals are a series of reefs where sandbanks occasionally form, and Natuna Besar, where the statement deliberately used the Indonesian name, is a reference to problems that Indonesia has been suffering from incursions of Chinese fishing vessels into its EEZ around the Natuna Islands.

This statement thus positions the United States not as an outside interloper in the South China Sea only interested in questions of freedom of navigation or great-power competition with China but as a supporter of the legitimate rights of Southeast Asian countries, backed up by well-established international law under UNCLOS. It is exactly what the governments of those countries want to hear. It is their fishers whose boats get sunk by Chinese vessels and their offshore energy industries that are blocked from developing new resources. It is their people’s livelihoods and national economies that suffer as a result of China’s efforts to undermine the UNCLOS treaty that it negotiated, signed, and ratified.

Southeast Asian governments knew this statement was coming. American diplomats circulated a nonpaper version to them last week. They broadly welcome its fine words, but that rhetoric means little by itself. What Southeast Asian governments seek is protection in their EEZs, far out at sea. They want to know that they can go fishing and prospect for hydrocarbons in line with UNCLOS without triggering intimidation from China’s growing navy, coast guard fleet, and maritime militia.

At the same time, they are apprehensive. As Shahriman Lockman, a veteran South China Sea watcher at the Institute of Strategic and International Studies in Malaysia, said: “The U.S. presence is seen as a double-edged sword. It has the effect of both deterring but also potentially
escalating matters with China. … The worst-case scenario is for things to escalate, and then the U.S. gets distracted by something in the Middle East, and we get saddled with more Chinese ships in our waters.”

The Chinese embassy in Washington responded to Pompeo’s statement with boilerplate text about how the US “deliberately distorts the facts and international law.” There has already been a noticeable increase in military activity in the South China Sea this year, with two U.S. aircraft carrier groups exercising there just this month, at the same time as the Chinese navy conducted maneuvers. Even before Monday’s statement, the two militaries seemed to be steering a course that was taking them closer to actual confrontation. China has dozens of paramilitary vessels—coast guard and militia—that are intended to loiter and seek an opportunity to seize the advantage. The U.S. Navy is built for the opposite—quick in-and-out operations. In a dispute over resource rights, the advantage lies with the force with staying power.

What then could Washington actually do? The United States, along with its allies and friends, could provide a picket line in the South China Sea, observing, publicizing, and protesting infringements of UNCLOS. It could also position its ships behind Southeast Asian government vessels attempting to enforce UNCLOS. It would be a tough balance to maintain. This is primarily the Southeast Asian governments’ fight: There would be little domestic support for the United States shedding blood to protect someone else’s oil nor much Southeast Asian support for the country using the region to fight a kinetic battle with China.

And these moves would come at a time when the Chinese leadership has elevated questions of national territory to a near-sacred level. Whether in Hong Kong, the Himalayas, or over Taiwan, Xi Jinping’s government appears to regard the protection of China’s territorial claims (however poorly founded they may be) as a matter of national life and death. Given everything else that is going on in the U.S.-China relationship, the risk of escalation is real.

In his 1924 speech on pan-Asianism, Sun Yat-sen, one of the founding fathers of modern China, drew a distinction between a “European civilization [that] is nothing but the rule of might” and a superior civilization in the East based on “the rule of right.” These days, Vietnamese fishermen are discovering that in the South China Sea, the “right” agreed in UNCLOS is somewhat flimsy compared with the “might” of the China Coast Guard ship ramming and sinking their wooden boats.

On Monday, Pompeo positioned the United States behind “right,” quoting Sun as he did so. But, as Sun knew well, right is useless without the power of might behind it. It would also be politically useful for the United States to demonstrate its own commitment to “right” by mustering the 66 senators required to formally ratify UNCLOS. Using power to protect
legitimate rights without crossing the line into war will be a tough challenge for the United States and its friends, partners, and allies in Southeast Asia.
China’s Hidden Navy
BY GREGORY POLING | JUNE 25, 2019, 9:47 AM
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The Spratly Islands, occupied by five different claimants, are the most hotly contested part of the South China Sea. Thanks to the harbors and supporting infrastructure Beijing constructed on its outposts there over the last five years, most vessels operating around the Spratlys are Chinese. And most of those are at least part-time members of China’s official maritime militia, an organization whose role Beijing frequently downplays but that is playing an increasingly visible role in its assertion of maritime claims.

A small cohort of analysts continue to cast doubt on the existence and activities of the maritime militia. The best-intentioned offer alternative explanations for the curious behaviors of the Chinese fishing fleets, though those don’t stand up to scrutiny. Other writers, especially those affiliated with Chinese institutions and state media, seek to present an alternate version of reality by artfully cropping satellite imagery, cherry-picking data, or simply ignoring the facts and attacking the motives of those presenting evidence of militia activities.

This is unsurprising—the purpose of employing a maritime militia is to keep aggression below the level of military force and complicate the responses of other parties, in this case chiefly the other claimants (Vietnam, the Philippines, Malaysia, and Taiwan) as well as the United States, by hiding behind a civilian facade. Without deniability, the militia loses much of its value. That gives China a strong incentive to dissemble and deny evidence of its actions. But that evidence speaks for itself.

The People’s Armed Forces Maritime Militia is not a secret. Article 36 of the China Military Service Law of 1984, revised in 1998, calls for the militia “to undertake the duties related to preparations against war, defend the frontiers and maintain public order; and be always ready to join the armed forces to take part in war, resist aggression and defend the motherland.” China’s 2013 defense white paper enhanced the maritime militia’s role in asserting sovereignty and backing up military operations. This is the naval analogue to China’s larger and better-known land-based militia forces, which operate in all Chinese theater commands, supporting and under the command of the People’s Liberation Army (PLA).

In 2013, Chinese President Xi Jinping visited the maritime militia in Tanmen township on Hainan, China’s southernmost province, and labeled it a model for others to follow. Andrew Erickson, Conor Kennedy, and Ryan Martinson at the China Maritime Studies Institute at the U.S. Naval War College have spent years documenting the activities of the maritime militia,
including extensive acknowledgment by Chinese authorities and many instances in which militia members have publicly discussed their activities.

A review of available remote sensing data by the Center for Strategic and International Studies and Vulcan Inc.’s Skylight Maritime Initiative, including infrared imaging, synthetic aperture radar, and high-resolution satellite imagery, shows that the largest number of vessels operating in the Spratly Islands belongs to the Chinese fishing fleet, which frequently numbers between 200 and 300 boats at Subi and Mischief Reefs alone. This is not by itself peculiar: China maintains the world’s largest fishing fleet, and its distant water vessels operate around the globe due to overfishing and pollution of Chinese coastal waters. But the vessels operating in the Spratlys are not part of that distant water fleet—those boats are larger and head farther afield in the hunt for high-value migratory species. And at 800 nautical miles (about 920 miles) from the mainland, the Spratlys are too far for small and medium-sized Chinese fishing vessels to operate productively without being heavily subsidized.

But even China’s two-decade-old policy of subsidizing fishing as an assertion of sovereignty can’t explain the behavior of most Chinese vessels in the Spratlys in recent years. Chinese fishing boats in the islands average more than 500 tons, well over the size legally required for boats undertaking international voyages to use Automatic Identification System (AIS) transceivers, which broadcast identifying information, headings, and other data about oceangoing vessels. But fewer than 5 percent of them actually broadcast AIS signals at any given time. This suggests a fleet intent on hiding its numbers and actions.

These large, modern vessels represent a stunning level of sunk capital costs but do not engage in much commercial activity. Frequent satellite imagery shows that the vessels spend nearly all of their time anchored, often in large clusters. This is true whether they are inside the lagoons at Subi and Mischief Reefs or loitering elsewhere in the Spratlys. Operating in such close quarters is highly unusual and certainly not the way commercial fishing vessels usually operate.

Light falling net vessels, which account for the largest number of Chinese fishing boats in satellite imagery of the Spratlys, very rarely have their fishing gear deployed. China’s trawlers, meanwhile, almost never actually trawl; instead, satellite imagery and the AIS signals of those few trawlers regularly broadcasting both show that they spend most of their time at anchor. These unusual, and highly unprofitable, behaviors suggest that most of these supposed fishing boats are not making a living from fish.

When Chinese fishing vessels are not at Subi or Mischief Reefs, they are most often seen in satellite imagery anchored near Philippine- and Vietnamese-held outposts in the Spratlys. This is corroborated by the small number of AIS signals detected from Chinese ships. The most
spectacular example of this behavior was the swarm of vessels from Subi Reef that dropped anchor between 2 and 5 nautical miles from Philippines-held Thitu Island as soon as Manila began modest upgrade work on that feature in December 2018. The number of vessels seen in satellite imagery peaked at 95 on Dec. 20, 2018, before dropping to 42 by Jan. 26. That presence continued into early June, when reports suggested that China had begun to pull back the vessels. The exact number of ships fluctuated from day to day, but almost none broadcast AIS or deployed fishing gear, and they operated in much closer quarters than any commercial fishing vessels would.

The Armed Forces of the Philippines confirmed that it had monitored 275 individual Chinese vessels swarming near Thitu between January and March, and Manila filed protests with Beijing over their presence. Meanwhile satellite imagery from March to April showed another cluster of Chinese vessels displaying the same puzzling behavior around two other Philippine-held features: Loaita Cay and Loaita Island. In that case, some dropped anchor just half a nautical mile from the isolated Philippine facility on Loaita Cay.

The only explanation that can make sense of all of these behaviors is that most of these vessels engage, at least part-time, in the work of China’s maritime militia. The job of that militia force has been well documented by sources as diverse as the U.S. Naval War College, reports from the Philippine military, and China’s own official documents outlining the militia’s role. On a day-to-day basis it serves as a logistics and surveillance arm of the PLA, ferrying supplies to Chinese outposts, monitoring and reporting on the activities of other claimants, and engaging in joint training exercises with the military and law enforcement. But they also move into more direct harassment of other nations’ vessels when called up—maneuvering dangerously close to foreign naval, law enforcement, and civilian vessels, sometimes shouldering and ramming them, and in general making it unsafe for other parties to operate in areas contested by Beijing, all while the PLA and China Coast Guard are kept in reserve as an implicit threat with a level of deniability.

Some analysts have offered alternative explanations for the curious, unproductive behavior of these ships. But none of the theories stand up well to scrutiny.

One suggestion is that these vessels never have gear in the water because they are actually reef fishers engaged in harvesting high-value species such as sea cucumbers and giant clams. Relatedly, theorists posit that they don’t broadcast AIS because they are too small, or too old, or because they know that harvesting endangered species is illegal under Chinese law and they want to hide their activities. Some have even argued that the flood of vessels around Thitu was due to a surge in demand for seafood ahead of China’s Spring Festival.
But these explanations make little sense. The sizes and types of vessels are easily determined from satellite imagery. These fleets consist of large (over 160-foot) modern trawlers and falling net vessels, not the smaller (80- to 115-foot) motherships that accompany Chinese reef fishers around the Spratlys and other disputed features such as the Paracels and Scarborough Shoal, and certainly not the reef fishing boats themselves. And while reef fishing vessels average just 15 feet, they can be seen in satellite imagery; it would be immediately obvious if hundreds were operating around Thitu Island. There is plenty of sea cucumber harvesting in the Paracels—at Antelope Reef, for instance—and giant clam poaching has been well documented across the South China Sea. This is not that.

Another theory is that these vessels don’t appear to be fishing because they are involved in transshipment, serving in a support role by purchasing catch from and providing supplies to other fishing boats in the area. That might fit if it was just some small percentage of the Chinese fleet involved. But the opposite is true: Most Chinese ships observed in the Spratlys don’t appear to be commercially fishing. They can’t all be support vessels; what would they be supporting?

A third hypothesis is that some of these vessels are simply passing through the Spratlys to fraudulently collect the fuel subsidies China offers for ships that operate in the contested waters. After securing their subsidy, the theory goes, these boats likely head for more productive fishing grounds beyond the region. This could be true for some small number of ships; it would be impossible to prove either way. But this cannot explain the long-term presence of hundreds of vessels anchored around Thitu and other features. And while only a small percentage of Chinese ships broadcast AIS in the Spratlys, those that do tend to spend months at a time there, mostly anchored.

The evidence that China is using hundreds of fishing vessels under the aegis of its publicly acknowledged maritime militia to assert claims and harass its neighbors in the Spratlys is considerable. By contrast, the alternative theories are severely lacking. No other convincing explanation has been offered for why so many fishing vessels are engaged for months at a time in activities that make little or no commercial sense, or why they are so intent on hiding their actions.

The maritime militia is the vanguard of China’s assertion of claims to the waters of the South China Sea. It is the largest fleet operating in the area and is the most frequent aggressor toward both China’s neighbors and outside parties like the United States when asserting international rights in waters claimed by Beijing. It operates as a nonuniformed, unprofessional force without proper training and outside of the frameworks of international maritime law, the military rules of engagement, or the multilateral mechanisms set up to prevent unsafe incidents at sea. The next violent incident to take place in the South China Sea is far more likely to involve the Chinese
militia than the PLA or China Coast Guard, and it will lack the mechanisms for communication and de-escalation that exist between those professional services and their counterparts in other nations.

The only way to avoid an eventual crisis triggered by these paramilitary vessels is to convince Beijing to take them off the board. And the first step is to pull back the curtain of deniability, acknowledge that the evidence for their numbers and activities is overwhelming, and insist that the Chinese government be held accountable for their bad behavior.
Table 2: Power Consumption (Annual kWh, per capita)

<table>
<thead>
<tr>
<th>Country</th>
<th>kWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>12,984</td>
</tr>
<tr>
<td>China</td>
<td>3,927</td>
</tr>
<tr>
<td>India</td>
<td>805</td>
</tr>
<tr>
<td>Pakistan</td>
<td>471</td>
</tr>
<tr>
<td>Ghana</td>
<td>354</td>
</tr>
<tr>
<td>Nigeria</td>
<td>144</td>
</tr>
<tr>
<td>Haiti</td>
<td>39</td>
</tr>
</tbody>
</table>


RECOMMENDATIONS FOR THE USDFC

Given the context, expectations, and trends in the global economy, we advise the USDFC to take advantage of this opportunity by prioritizing (a) areas where U.S. firms have a competitive or technological advantage, (b) projects that can show reasonably positive momentum in a relatively short-time period, and (c) sectors where development finance is most needed and where prospects for social and economic impact are high. To meet all of these criteria, we advise the USDFC pursue the following recommendations.

Recommendation 1. Focus on fast-growing emerging market urban clusters by organizing investment opportunities around building Smart Cities.

Rapidly growing urban centers can become sources for dynamism and entrepreneurship, or they can create a range of social, political, and economic risks. The difference in trajectories is largely driven by how well expansion is managed, such as the ability to address the needs of residents and businesses. Many cities in emerging and frontier markets (Lagos, Jakarta, Cairo, Dhaka, Kinshasa, Manila, Karachi, and many more) are struggling to find financing for critical infrastructure and services for its citizens. Smart Cities—cities that utilize advanced technology to enable efficient solutions for urbanization—offer tremendous opportunities for the USDFC to:

- Aggregate a wide range of services and products. These include applying technology to help meet demands for transportation, housing, water and waste treatment systems, power, safety and security, disaster preparedness, health, education, and other public (or private) services. Technology can also assist in planning for growth and enabling e-governance.
- Leverage existing engagement from U.S. firms and financiers in urban services. For example, AT&T launched a Smart Cities program and is now partnering with the city of Los Angeles to deliver new smart cell technology to drive traffic, public safety, and disaster preparedness improvements. Cisco, Honeywell, Verizon, Current, and hundreds of smaller technology providers based in the United States are also providing urban solutions. JP Morgan has similarly launched a Global Cities Initiative, while Prudential Financial has indicated growing interest. Smart Cities are also a highly promising area for partnering with U.S. allies, such as Japan and Korea.

- Demonstrate clear value addition from its tools and USDFC’s unique role in risk sharing. Many technology-focused transactions are large and complex because they often involve multiple actors with a requirement to integrate various systems into one (e.g., transportation and safety). Most governments in emerging and frontier markets have limited human and financial resources to take on these multifaceted projects. Many are now looking to leverage private capital funding and build partnerships with technology companies. The USDFC could accelerate the development and financing of Smart City projects by deploying a range of products—loans, equity, and credit guarantees—as well as helping mitigate risk through technical assistance and partnerships with U.S. technology companies. In particular the USDFC could address gaps that an individual investor could not, such as:

  - Technical assistance for planning and governance. Helping cities prepare business and financial plans for core infrastructure could unlock major new investment opportunities.
  - Investment in data nerve centers. Cities need to develop the basic data systems to collect, process, analyze, and protect information across a network of sensors.
  - Citizen services, such as digital government, data dashboards, and performance monitoring.
  - Transportation management, including demand/supply modeling or systems for multimodal transportation integration.
  - Trade facilitation, such as creating connected corridors, freight platooning, and testing new autonomous vehicle applications.
  - Security systems, for instance cyber infrastructure plans, hardware, and standard setting.
  - Education technology, such as e-Learning and Smart Campus environments.
• Water services such as monitoring, quality, loss, and planning.
• Hard and soft energy infrastructure and technology (see Recommendation 2).

**Recommendation 2: Respond to huge unmet power needs by investing aggressively in both hard and soft energy infrastructure and technology.**

Power has been a traditional strength of OPIC’s portfolio. This must continue under the USDFC. Energy is a sector where the United States is a global leader and, when projects are well implemented, can have substantial positive impact in both the immediate future and long term. Energy systems that can deliver affordable, reliable electricity at scale can help to unlock economic growth, create employment, and support the expansion of a wide range of public and private services. Energy infrastructure can also present relatively large transactions and crowd in private capital, technology, and expertise. To accelerate the USDFC’s contribution to meeting the energy demand across emerging and frontier markets, the agency should:

• **Promote software, data management, and control systems needed for modern power systems.** New technologies in the power sector, such as machine learning for better system utilization, advanced control systems, and security infrastructure, are separate from building generation plants and power lines, but they create efficiencies and enable even greater investment. For example, better load management can allow new generation to be added to the grid, while data analytics to better understand supply and demand dynamics can mitigate risk to new projects.

• **View the current lack of reliability in many markets as an opportunity.** Batteries (e.g., the Tesla Powerwall) is one example of a product that meets a need for consumers living in places highly susceptible to weather-induced power outages. Demand-side power management technologies may be even more attractive in markets with endemic unreliability (e.g., Lagos or Karachi).

• **Leverage the clear U.S. comparative advantage in natural gas technology.** Many markets with large unmet power needs are also natural gas producers and/or potential gas importers. Countries across Asia, Latin America, and Africa could be more effectively utilizing their own resources and exploiting U.S. advanced technology to produce power and industrial production, maximize the economic and social benefits of natural gas, and limit the environmental footprint. The vast and diverse number of world-leading U.S. firms in this sector presents a unique opportunity for USDFC expansion.

• **Carefully review policies to maintain relevance to today’s technology, including advanced nuclear.** To succeed, the USDFC must be aggressive and vigilant in enforcing its environmental and social policies to ensure that its activities are producing benefits and managing the inherent tradeoffs of all projects. However, such policies should not be static and must adapt to changing technologies and market trends. For example, the USDFC should consider modifying OPIC’s nuclear reactor exclusion to take account of new advanced models that did not exist when the policy was enacted. The United States is already modernizing its domestic regulatory and licensing regime to recognize technological changes. A similar updated distinction may be warranted for development finance projects.

• **Work with other U.S. agencies to unstick bottlenecks, especially in transmission and distribution.** Cooperating with other agencies will be essential for USDFC’s success, including as an active participant in Power Africa, Asia EDGE, and other interagency initiatives. Patient risk capital from USDFC is particularly valuable in areas like electricity transmission where the needs are great, but the short-term commercial returns are less obvious. Transmission bottlenecks continue to severely constrain power system expansion because of inadequate infrastructure, pricing policy deficiencies, and lack of long-term investment. Within the U.S. government, potential partners include the Millennium Challenge Corporation (which can provide grants for infrastructure development), the U.S. Trade and Development Authority (grants for feasibility studies), and the U.S. Agency for International Development (USAID) and State Department (policy reform and technical assistance).

**Recommendation 3: Close the digital divide with soft infrastructure investments.**

Digital infrastructure—such as broadband or fiber-optic internet cables, mobile telecommunications, online banking and e-payment systems, and other digital platforms—are as important in today’s global economy as roads and bridges. Access to information can bolster democracy, improve governance, and can potentially enable citizens to hold their leaders accountable. As countries move up the development ladder and their middle classes expand, citizens demand even more information and greater digital services. Businesses
require data and communications to function, to compete, and to grow. Digital infrastructure is a new necessity. Yet internet access is still missing for billions of people and the cost of broadband access is prohibitively expensive.\(^9\)

The opportunity for the USDFC is to:

- **Double down on Connect Africa**, OPIC’s $1 billion commitment over three years to support projects in telecommunications and internet access, logistics, value chains, and other essential infrastructure. This a good start, but opportunities in digital infrastructure in support of trade and commerce are vast.

- **Aggressively promote U.S. technology alternatives.** For the moment, the United States has an edge over China and other competitors in many parts of digital infrastructure. Companies from Silicon Valley, Seattle, Austin, Pittsburgh, Boston, and other hubs have the technical expertise for establishing and using networks to deliver digital services. Concerns over cybersecurity, cyber attacks, and digital espionage also may play to the U.S. advantage.\(^10\)

- **Search for opportunities to pair infrastructure.** The USDFC should actively look to partner on projects where power lines, roads, tunnels, bridges, or other baseline infrastructure is being built so that U.S. companies can build the digital backbone for the internet at the same time. This saves money and time in the long term since most developing countries’ citizens are already demanding universal access to the internet.

### CONCLUSION

When the USDFC opens its doors in October 2019, expectations will be tremendous. The White House, Congress, partner governments, business leaders in the United States and across emerging markets, and the American public all expect this new agency to have meaningful impact. The USDFC can best succeed by organizing around infrastructure opportunities in dense urban growth centers, the power sector, and in digital technology.

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ANNEX 1: THE WORKING GROUP ON U.S. DEVELOPMENT FINANCE FOR INFRASTRUCTURE

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Note: Affiliations listed for identification purposes only. All participation was in a strictly private capacity.
ENDNOTES


or because they have been low priorities for the United States. In those places, where the U.S. presence tends to be weak or nonexistent, China has found that it can make significant inroads without provoking the hegemon. Thus, China initially chose to focus on leveraging its economic power to build influence in Africa, Central Asia, and Southeast Asia. It also doubled down on close relationships with unsavory regimes that the international community had ostracized, such as Iran, North Korea, and Sudan, which allowed it to increase its political power without threatening the United States’ position.

The second type of gap is thematic. In issue areas where the established order is weak, ambiguous, or nonexistent, China has sought to establish new standards, rules, norms, and processes that advantage it. Consider artificial intelligence. China is trying to shape the rules governing this new technology in ways that favor its own companies, legitimizing its use for domestic surveillance and weakening the voice of civil society groups that inform the debate about it in Europe and North America.

When it comes to the Internet, meanwhile, China has been pushing the notion of “cyber-sovereignty.” In this view, which contrasts with the Western consensus, cyberspace should be governed primarily by states, rather than a coalition of stakeholders, and states have the right to regulate whatever content they wish within their borders. To shift the norm in this direction, China has put the brakes on U.S. efforts to include civil society groups in the UN Group of Governmental Experts, the main norm-setting body for Western governments in cyberspace. Since 2014, it has also held its own annual World Internet Conference, which promulgates the Chinese view of Internet regulation.

In the maritime realm, China is exploiting a lack of international consensus on the law of the sea. Although the United States insists that naval vessels’ freedom of navigation is enshrined in international law, many other countries contend that warships have no automatic right of innocent passage through a country’s territorial waters—an argument made not just by China but also by U.S. allies such as India. By taking advantage of these discrepancies (and the United States’ failure to ratify the UN Convention on the Law of the Sea), China is able to contest U.S. freedom-of-navigation operations within the rubric of the existing international order.

THE NEW COMPETITION

Thanks to this novel strategy, China has been able to grow into one of the most powerful countries in the world, second, perhaps, only to the United States. And if it had chosen to persist with this strategy, the country would have continued to stay off the United States’ radar screen. But rising powers can delay provocation for only so long, and the bad news for the United States—and for peace and security in Asia—is that China has now entered the beginning stages of a direct challenge to the U.S.-led order.

Under Xi, China is unabashedly undermining the U.S. alliance system in Asia. It has encouraged the Philippines to distance itself from the United States, it has supported South Korea’s efforts to take a softer line toward North Korea, and it has backed Japan’s stance against American protectionism. It is building offensive military systems
The Stealth Superpower

capable of controlling the sea and airspace within the so-called first island chain and of projecting power past the second. It is blatantly militarizing the South China Sea, no longer relying on fishing vessels or domestic law enforcement agencies to exercise its conception of sovereignty. It has even started engaging in military activities outside Asia, including establishing its first overseas base, in Djibouti. All these moves suggest one thing: China is no longer content to play second fiddle to the United States and seeks to directly challenge its position in the Indo-Pacific region.

For the United States, competing with China today cannot be a matter of confronting the country or, as Secretary of State Mike Pompeo said in October 2018, opposing it “at every turn.” Washington should focus on building U.S. power and influence everywhere else in the world—making the United States more attractive as a political, economic, and military partner—instead of undermining China’s attempts to do the equivalent. By focusing on self-improvement over confrontation, Washington can reduce the risk of creating an enemy and triggering unnecessary conflict.

The first step is for the United States to expand the reach of the order it leads, thus reducing the gaps China can exploit. Contrary to the worldview of U.S. President Donald Trump, the world needs more order, not less. Washington should add new institutions to cover the parts of the order that have none and revise old ones for the parts that are outdated. It should, for example, lead an effort to update the Missile Technology Control Regime, a 1987 partnership to stop the proliferation of nuclear delivery systems, to better account for the advent for unmanned drones. It should also create new treaties aimed at preventing warfare in cyberspace (and in outer space, too, for that matter). And when China sets up its own institutions, as it did with the Asian Infrastructure Investment Bank in 2016, the United States should join the new organizations early on to influence their development rather than attempt to undermine them. The goal should be to build a more comprehensive international order that cannot be pulled in China’s illiberal direction.

The United States also needs to step up its economic game. China has nearly as many formal trade agreements in place as does the United States, which, in Asia, has struck bilateral free-trade agreements with only Australia, Singapore, and South Korea. The Trans-Pacific Partnership, signed by 12 countries in 2016, was a step in the right direction, but the Trump administration withdrew from the proposed deal, thus dooming what would have been the world’s largest free-trade agreement, covering 40 percent of the global economy. Instead, the administration has preferred protectionist policies, which will serve only to facilitate Chinese economic dominance in Asia. As if on cue, China has launched its own version of the Trans-Pacific Partnership, the Regional Comprehensive Economic Partnership, which is set to include 16 Asian countries. Washington should also rethink the way it offers economic assistance. To get more bang for its buck, it will need to coordinate more closely with its allies. In the Pacific Islands, for example, the United States lags well behind China in terms of trade, investment, and development assistance. But by pooling its resources with Australia, which has announced a massive infrastructure
Oriana Skylar Mastro

project there, the United States could multiply its influence in the region. The same goes for Central Asia: if the United States coordinated its priorities with Japan, Switzerland, and the United Kingdom (all of which are major investors in the region), it could more effectively promote liberal political and economic policies there. Cooperation is not enough on its own, however; Washington also needs to increase its own unilateral aid.

Another way the United States can maintain its edge is to take a cue from China and become more entrepreneurial in how it acquires and exercises power. The standard playbook Washington has been following since the end of the Cold War will no longer do. If the United States is upset with a country over its human rights abuses, for example, reducing or even cutting off economic and diplomatic ties as punishment risks ceding influence to a less discriminating China. Instead, Washington should increase its engagement with the unsavory government, pursuing U.S. interests not just on a diplomatic level but also on a people-to-people level. Similarly, when it comes to military relations, the United States needs to upgrade its tool kit. Port visits, air shows, and even foreign military sales and joint exercises are often merely symbolic and fail to demonstrate the United States’ commitment to a country. Far more effective in preparing for conflict would be efforts to create common threat perceptions through enhanced intelligence sharing and joint contingency planning.

U.S. policymakers must also undertake a thorough consideration of what costs would (and would not) be worth bearing in order to maintain the United States’ dominant position in Asia. Most agree that the United States should try to maintain its preeminence in the region through competitive but peaceful means. The irony, however, is that if the United States succeeds in doing that, the likelihood of conflict with China may go up. That’s because Chinese leaders emphatically believe that the failure to rejuvenate their nation is a fate worse than war, and they will not shy away from a conflict if that is what it takes to succeed. As a result, if U.S. leaders deem primacy in Asia worth protecting, they should brace themselves for the possibility that doing so may require the use of military force. The worst of all worlds would be to fail to compete in peacetime, thus accommodating Chinese power by default, and then—once a conflict erupts—decide that U.S. primacy is important, after all. By that time, however, the United States would be in a poor position to prevail.

The United States must also consider what costs it is willing to bear to defend the countries in Asia that are not its allies yet whose subjugation would threaten the bedrock principles of the international order. In the South China Sea, for example, the United States claims that its naval operations are aimed at defending the general principle of freedom of navigation, but in practice, it has proved willing to physically protect the passage rights only of U.S. and allied ships. Washington’s failure to stand up for non-allies whose rights to sail freely are being restricted puts its preeminent position at risk. So the United States should start laying the groundwork for a coalition, similar to the antipiracy task force it developed in the Gulf of Aden, whose ships would escort any vessel in need of protection in the South China Sea, regardless of nationality.
Other scenarios are even more dire. When China’s first round of military reforms are completed, which is projected to be around 2025, Beijing will be tempted to test its new capabilities against a weak country that does not enjoy U.S. protection. Take Vietnam. Even though the United States has no obligation to defend the country, if China forcibly took an island in the South China Sea currently occupied by Vietnam and Washington stood by, its role as the guarantor of peace in the region would be thrown into question, and China would be emboldened. Washington thus needs to be prepared for the unfamiliar possibility of using military force to defend a country with which it has no alliance.

RISING TO THE OCCASION
Great-power competition is not just about military calculations or economic pull. The United States also needs to recommit to protecting its values. Some in the Washington establishment speak longingly about Beijing’s ability to get things done, thanks in part to its disregard for liberal norms. Indeed, this sort of agnosticism does give China an advantage. It is able to win over Asian governments by doling out money with no strings attached, its state-owned enterprises receive not just state support but also proprietary information through espionage, and its authoritarian political system makes it far easier to control the narrative about its goals and missions both at home and abroad. But China has an Achilles’ heel: its leaders have failed to articulate a vision of global dominance that is beneficial for any country but China. That is why, unlike the United States, it prefers to work with weak partners that can be easily controlled.

To be competitive, Washington cannot stoop to Beijing’s level. The United States does not by any means have a perfect track record of living up to its values, but by and large, it has chosen to lead the world in a way that ensures that others also benefit. Now is not the time to abandon this inclusive approach. Washington should support the international institutions that make up the liberal order. It should dedicate greater resources to defending its allies and partners. And in its economic assistance, it should focus on quality over quantity, seeking to make sure that as many people as possible benefit from development. What has made the United States number one is that it thinks globally—not just about “America first.” Only by expanding the reach of its own liberal values can the United States weather China’s challenge.