

HOLD THE LINE THROUGH 2035

*A Strategy to Offset China's Revisionist Actions and
Sustain a Rules-based Order in the Asia-Pacific*

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Executive Summary

- Between now and 2035, imposing costs on strategically unacceptable Chinese actions while also pursuing behind-the-scenes “defense diplomacy” with Beijing offers a sustainable path to influence PRC behavior and position the Indo-Asia-Pacific¹ for continued prosperity and growth under a rules-based regional system.
- The United States should resist yielding strategic principles and position to a People’s Republic of China (PRC) that is facing increasing constraints on its economic potential, national power growth, and prioritization of competition over citizens’ welfare.
- The United States should accept greater strategic risk to “hold the line” against PRC revanchism in the Asia-Pacific through Beijing’s key national planning milestone of 2035.
- Empirical data and emerging structural trends suggest that by 2035, demographic decline, debt overload, and societal expectations will likely substantially curtail China’s national power growth relative to currently expected levels. Beijing’s present hubristic outlook would likely be reduced under such conditions.
- During the 2020s, Beijing may reach the zenith of its ability to mobilize resources for repression at home and abroad. 2035 thus represents the likely closing of a “window of vulnerability” with heightened risk of conflict between the PRC and regional neighbors, including—by extension through alliances and presence—the United States itself.
- “Holding the line” is not a passive policy and is likely to require frequent and sustained proactive enforcement actions to disincentivize PRC assaults on the rules-based order in the Asia-Pacific. PRC probing behavior and provocations must be met with a range of symmetric and asymmetric responses that impose real costs.
- American policymakers must understand that under paramount leader Xi Jinping’s strongman rule, personal political survival will dictate PRC behavior. Washington must prepare the American electorate as well as allies and partners abroad for the likelihood that tensions will periodically ratchet up to uncomfortable levels.
- American policymakers must also make clear to their counterparts in China that the engagement-above-all policies that dominated much of the past 25 years are over and that the risks and costs of ongoing—and future—adventurism will fall heaviest on the PRC.
- To reduce PRC leverage, government at all levels in the United States should take steps to de-link supply chains for critical defense and medical goods from the PRC and PRC-domiciled entities as quickly as possible.
- A strategy of holding the line through 2035 leaves open a pathway to more fully integrate China into the rules-based regional system if and when Beijing steps back from the Chinese Communist Party (CCP)’s present emphasis on aggressive nationalism and regional revisionism.

The Challenge: High Stakes for Asia's Future and Vital U.S. National Interests

Rarely has a national challenge been defined and dated so precisely by a competitor nation. To the extent that any great power does today, China under Xi Jinping's authoritarian rule has a set of official goals and plans to make itself great again by 2049. Most of the foundational work is slated for completion by the halfway mark: 2035.²

2035 thus represents a key milestone in PRC domestic politics. Measured by China's core planning and development metronome—the Five-Year Plan—2035 is only three decision cycles away. Furthermore, “by 2035, China's military leaders seek to complete military modernization.”³ It is also the year by which the State Council's Development Research Centre projects that the United States may no longer be the global economic superpower and the point when China's economy will likely have surpassed America's in sheer size.⁴

If official PRC projections are right, the global effects would be substantial—particularly if Beijing's rise further dilutes Washington's global economic and military influence. But if they are wrong—which an increasing array of demographic, economic, and diplomatic signals suggests is the case—the effects could be even more profound.

There is a growing assumption—promoted heavily by Beijing since the 2008 global financial crisis—that China will inevitably capture the core role in Asian economic and security architecture that the United States has held for the past 75 years.⁵ If China displayed the demographics, financial profile, and real economy metrics that the United States did between 1890 and 1920, this would suggest Beijing's narrative could in fact prove correct.

But emerging reality is very different. China's incipient demographic decline, tremendous environmental and resource stresses,⁶ slowing economic growth, and the rising external backlash against its revisionist aggression are in fact establishing conditions within which an appropriately tailored U.S. competitive strategy can leverage America's enduring strength and underappreciated future growth potential. Done right, this can enable Washington to lead an effort that would benefit billions of people by protecting, renewing, and improving many aspects of the Asia-Pacific diplomatic, economic, and security architecture.

To accomplish this, Washington must “hold the line” using a dynamic blend of integrated diplomatic, information, military, and economic (DIME) action to: (1) impose costs on revisionist PRC behavior,⁷ (2) prevent Beijing from consolidating recent ill-gotten gains along its maritime periphery, and (3) stabilize and improve

the regional economic and security architecture—including eventually, a potential reintegration of a post-Xi/post-CCP China.

The United States should build upon a seven-plus-decade history of upholding an open Asia-Pacific architecture that has coincided with vital American national interests, but has generally facilitated other regional countries' interests to an equal—or, in some cases, proportionally greater—degree relative to their investment in maintaining the system. Indeed, the peaceful, pro-growth regional environment of recent decades facilitated the very economic (and by extension, military) rise that has allowed China to challenge the United States in Asia to begin with.

Freedom of Strategic Choice

Holding the strategic line is not about forcing regional states to choose between the great powers. Indeed, that approach would likely backfire because nearly all governments in the region—even those of close American allies—do not wish to side exclusively with any single power.⁸ Rather, holding the line aims to reassure American allies, emerging partners, and fence-sitters alike that Washington is serious about maintaining an Asia-Pacific order based on rights and rules, rather than fealty and subservience. Giving regional actors options complicates Beijing's efforts to corner them by threat or promise. Persuading regional countries that Chinese dominance is not inevitable could in turn catalyze additional governments to more stoutly defend the international order that helped the region achieve its current prosperity.

Proactive projection of strength will be critical. Kurt Campbell and Jake Sullivan rightly emphasize: "In the zero-sum strategic mindset of many Chinese officials, perceptions of U.S. power and resolve matter enormously, and the Chinese bureaucracy has long focused on shifts in both. Given this sensitivity, it can be as important for Washington to demonstrate an ability to stand firm, and even to impose costs, as it is for it to speak earnestly about finding common cause."⁹ Our recommended approach accounts for these realities and uses competition and projection of strength to proactively shape the environment and stand firm against revisionist revanchism, while leaving the door open for cooperation that supports a rules-based regime of open transit and commerce accessible to all across the region, including China.

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Holding the line also explicitly accounts for Chinese internal dynamics in a way that no other American strategy has to date. China is graying well before getting rich and confronts critical obstacles very early in its evolution as a global power. Imagine how different the American trajectory would have been if the United States of 1920 (in relative global power terms) had already been suffering many of the aforementioned problems that afflict it in 2020. That is approximately where China stands today in its development.

No More Accommodation of Revisionist Behavior

The United States should not need to bend over backwards to accommodate, much less appease, continued revisionist behavior by the PRC. Instead, Washington and its allies should capitalize on the relative ease of maintaining (and crowdsourcing and downloading updates to) an established strategic operating system, while forcing China to more explicitly assume the substantial costs of trying to install a new operating system to overturn the ecosystem that so many participants beyond the United States have deep vested interests in maintaining.

Xi has chosen to fundamentally upset 25 years of U.S.-led “engagement” that assumed a posture of relatively benign intent toward China. The United States and its allies now have no choice but to adopt a stronger stance to protect their vital interests, regional peace, and the global system. Washington has not been given sufficient credit for its forbearance in the face of increasingly aggressive revisionist

behavior by China, and Beijing has pocketed gains without acknowledging the benefits and goodwill it has squandered. Other states must face the reality that there is no way to transition to a Beijing-led system while keeping the benefits of the Washington-backed system. That would be a bad trade indeed.

For the past decade (and arguably longer), Beijing assumed that its rising economic heft and influence would make it the natural regional hegemon. Thus emboldened, China has steadily intensified its bullying of smaller neighbors, flouting of international law and norms, and

exploitation of considerable American tolerance. This mounting body of evidence illustrates how strategically damaging it was to naïvely believe that engagement could positively shape Beijing’s behavior where it mattered most.

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Washington must now explain to current and prospective regional partners why China's behavior has made it necessary to adopt a "holding the line" policy. As described above, this policy is one of calibrated competition with a great power whose national existence will remain an unavoidable reality as far as the eye can see. Core tenets of such "competitive coexistence" with China include:

- **Do not suppress China wholesale; focus on opposing its harmful behaviors.** This should be done in a regionally holistic manner that aims to thwart Beijing's attempts to methodically seek confrontation over certain issues with the goal of resetting the status quo in China's favor. One example of such "salami slicing" would be the progressive land reclamation and then militarization of previously subtidal features in the South China Sea.
- **Accept a substantially higher degree of risk and friction to impose costs on revisionist Chinese actions.** Beijing is banking on the expectation that the United States will blink or close its eyes—as it did repeatedly for years—when China challenges international law and broadly accepted regional norms of conduct.
- **Recognize that imposing costs will require whole-of-government(s) efforts across the DIME spectrum.**
- **Hold ground in contested areas to thwart Chinese dominance.**
- **Reduce tensions and pursue shared interests as much as Beijing is willing to do so.**¹⁰

America's Strategic Challenges are Emphasized Excessively, China's Insufficiently

The global power balance has clearly moved past the irreplaceable post-Cold War unipolar moment. But this does not automatically mean China will supplant America's role in Asia. In fact, the United States possesses a stronger-than-appreciated foundation upon which to build and sustain competitive vigor. As Ruchir Sharma notes, the American share of nominal global GDP in early 2020 was 25%—approximately the same as it was 40 years prior—despite the rapid rise of China, India, and other national economies.¹¹ And multiple fundamental forces—including favorable demographics, rule of law, deep capital markets, dollar dominance, preponderance within the high tech ecosystem, and others—are aligned to potentially provide many more decades of American dynamism.

American strategic and policy discourse also finally recognizes the reality of great power competition with China. The 2017 *U.S. National Security Strategy* (NSS) and 2018 *National Defense Strategy* (NDS) both clearly state that Washington intends to remain robustly engaged in the Asia-Pacific, and should enhance efforts to compete with China.¹² Strategic thinkers in partner countries region-wide have already drawn similar conclusions. As retired Singaporean senior diplomat Bilahari Kausikan

noted in a 2019 article, “Neither NSS (National Security Strategy) 2017 or NDS (National Defense Strategy) 2018 are isolationist documents. These documents and statements ... make clear ... that this is an era of great power competition and [show determination] to compete, not withdraw.”¹³

The challenges America faces are largely factored in (perhaps overly so) to regional and global perceptions while China’s are just starting to be appreciated and are thus far not truly “priced in” at all. In national power terms, China might be deemed “18 going on 58.” Over the past two decades, figuratively speaking, it underwent a massive teenage growth spurt and has already become exceptional within the global population. Yet, in those same terms, it is already displaying inexorable signs of aging—literally. As part of that process, citizens are increasingly demanding reprioritization of national resources and regulations toward their self-defined personal well-being and fulfillment. This will inexorably rebalance national priorities over time regardless of leadership or politics.¹⁴

Undeniably, China is graying before growing rich. This is a key strategic issue: to date no great power has become a superpower while its population stagnates, let alone declines. Current aging trends suggest China’s above-65 population is now growing at more than twice the annual rate of its American counterpart; the population-proportional share of China’s 65+ cohort could by 2030 be as large as that of the United States is now.¹⁵ PRC policymakers have finally recognized the problem, but won’t be able to reverse the tide because post-“One Child Policy” trends are already so deeply entrenched. Such slowing is typically a one-way ratchet in any developed society, but China’s misguided policies have accelerated the decline while heightening its impact.

Historical experience indicates that demographic shifts of the scale and velocity currently ongoing in China can have momentous economic consequences. Japan was an industrial dynamo that dazzled commercially as it rose from the ashes of World War II and began three-plus decades of rapid growth, culminating in the late 1980s “bubble economy.” Thenceforth, rapid aging began suppressing Japan’s growth, ultimately sending it into three decades of stagnation and counting. Fortunately, Japan was already rich by the time it grew old.

Japan’s experience offers a dire illustration of how demographic decline can short-circuit a world-class industrial power’s economic potential, and by extension its comprehensive national power. Masaaki Shirakawa, Bank of Japan Governor from 2008-13, underscores that the underappreciated economic impact of demographic shifts is not simply a Japanese phenomenon, but a global one. “While demographics is not the sole explanation for low growth of the global economy,” he concludes, “it is among the crucial factors.”¹⁶

Demographic shifts are also poised to more deeply erode the cost advantages that helped build the existing Chinese manufacturing powerhouse. The massive workforce bulge China brought into the market between the late 1980s and early 2010s underpinned a global trend toward wage deflation as Western capital and expertise sought cheap Chinese labor.¹⁷ The global impacts of rural Chinese surging into urban areas for manufacturing jobs track with econometric analysis strongly suggesting that a large working-age (i.e., 20- to 60-years-old) population promotes growth while suppressing inflation.¹⁸ And indeed, wages in virtually all professions exposed to Chinese competition have stagnated in the United States for many years.

But as the PRC's working-age population declines, rising labor costs are systematically pressuring China's manufacturing-led growth model. PRC-based firms' centrality to key global supply chains—such as electronics manufacture and assembly—will initially mask early stages of lost global competitiveness and a potential descent into the middle-income trap. But geopolitical tensions will likely continue to sharpen and exacerbate the situation by raising the risk for multinationals that would otherwise want to conduct R&D and manufacture goods in the PRC. Risks will likely be especially pronounced in higher-technology sectors as a “technology Cold War” continues taking shape between the United States (and allied countries) and China, a state of affairs likely to see additional export controls and informal discouragement of certain types of manufacturing investment in, and technology transfers to, PRC-based and -owned entities. It remains to be seen to what extent China will be able to use technology to offset adverse demographic trends. The experience of Japan—one of the world's highest-tech societies—strongly suggests that robots and software cannot build or easily maintain an economic superpower without a growing population of flesh-and-blood humans to utilize those systems. In a nutshell, technological inputs are at a macro level likely to be enablers rather than outright replacements.

Slowing Chinese economic growth accrues to the relative advantage of the United States and its allies by pushing China's putative economic “catch-up date” much further into the future. Growth rates matter enormously because compounding builds and entrenches economic power. Consider the following straight-line illustration: If the Chinese and U.S. economies' nominal GDP were to continue growing at 6% and 4% per year, respectively, from their 2019 level, China's economy would surpass that of the United States in approximately 2040. But if each country's respective growth rate were halved, China would not catch the United States in raw economic terms until the early 2050s. And if both countries' nominal GDP grew at 2% annually from 2023 onward, China would still lag the United States in absolute terms even in 2100. Combining the economic outputs of the United States and allies such as Japan and South Korea pushes China's potential “catch-up” date many more years into the future, if ever. But our analysis is not merely macroeconomic “curve fitting.” Rather, it weighs key dynamics against each other to offer insights into China's trajectory that will likely apply across the range of likely future scenarios.¹⁹

These emerging realities do not yet seem to be substantively influencing the calculus in many regional capitals, which remain governed by caution. But they should be accounted for in Washington, because now is the worst possible time for making preemptive strategic concessions based on a premature overestimation of China's future economic and military heft in Asia and beyond. American leadership in the diplomatic, economic, and hard security dimensions as the United States more comprehensively commits itself to the Asia-Pacific can help inspire others in the region to likewise strongly support a rules-based, open-access order that upholds sovereignty and opportunity regardless of a particular country's size.

The greater leaders in Beijing assess China's national power to be (and the more they seek to project an image of strength domestically), the harsher and more arbitrary their behavior toward regional countries will become.

Regional allies and partners should also be incentivized by the reality that a *Pax Sinica* would demand deference to Beijing and force regional states to effectively waive their sovereignty anytime it conflicted with narrow CCP goals. China under Xi does not—and perhaps simply cannot—see things in procedurally fair and institutionally restrained terms. Accommodation of others is often couched as 让利 (“concession of interests”).

The greater leaders in Beijing assess China's national power to be (and the more they seek to project an image of strength domestically), the harsher and more arbitrary their behavior toward regional countries will become. China's then-Foreign Minister Yang Jiechi made this crystal clear in a 2010 speech at the Association of Southeast Asian Nations (ASEAN) Regional Forum, where he told regional representatives that “China is a big country and you are small countries, and that is a fact.”²⁰ PRC foreign policy behavior in the subsequent decade has repeatedly translated Yang's statement into action at the expense of neighboring countries' rights and security.

Coalesce American Asia-Pacific Actions, Hold the Line Through 2035

Strategic ground ceded now is likely gone forever even if China later weakens or changes strategic course. And even if the parts of the regional rules-based system corroded by Beijing's actions could be reclaimed and repaired, the cost of doing so would likely be far higher than if it were preventatively defended upfront. If the United States appears to be wavering—due to a misimpression that China is “eight feet tall going on ten feet,” key regional partners will very likely cut accommodationist deals with Beijing to salvage what interests they can in a “post-American” world. A potential future bad-case scenario would thus become a near-term reality.

Economic heft (and the perception that it will continue increasing) underpins PRC policies that pointedly seek to divide the United States from its allies, and ultimately, supplant Washington as the dominant diplomatic, economic, and security force in Asia. But would-be accommodationists of Beijing must reckon with some important realities.

First, all contemporary historical examples show that states that experienced rapid economic expansion have inexorably reverted to the mean global growth rate. It is difficult to see China as being more than temporarily immune to this trend. As Pritchett and Summers emphasize, “China’s super-rapid growth has already lasted three times longer than a typical episode and is the longest ever recorded. The ends of episodes tend to see full regression to the mean, abruptly.”²¹

Second, the increasing divergence between higher official GDP numbers and substantially lower actual growth rates (or outright stagnation) in the production and use of key tangible industrial input commodities, rail and river freight volumes, and electricity suggests China’s regression toward mean global rates of economic growth could in fact be well underway already.²² Indeed, multiple real economy data streams increasingly indicate a future where China may not grow as fast or become as big as commonly believed; and that China is a formidable “seven feet tall” figuratively speaking, but probably won’t make it to “10 feet” and is more likely to peak at 7.5 or 8 feet.²³ We unpack these data and what they potentially mean in Appendix A.

Third, debt burdens will likely impact China much sooner and more dramatically than many strategic appraisals of Beijing’s future power have thus far predicted. As discussed earlier in this report, China is getting gray before getting rich. It’s also becoming indebted. China’s total corporate, household, and government debt now exceeds 300% of GDP, nearly twice its level at the time of the 2008 global financial crisis, and is approximating levels seen in the seriously indebted (but far wealthier) United States.²⁴ Current aggregate debt levels will likely increasingly constrain Beijing’s ability to sustainably stimulate growth through further policy interventions.²⁵ This, in turn, increases the probability that the flatlining of demand and production over the past five years in the key physical commodity markets discussed in Appendix A truly reflects a structural slowing of China’s real economy.

China reported strong GDP growth from 2004-08 and earlier, while maintaining relatively steady gross debt levels. The subsequent debt explosion suggests that (1) much Chinese growth during the past decade has been heavily debt-driven, and (2) China likely cannot replicate the RMB-for-RMB impact of stimulus measures unleashed following the 2008 global financial crisis. Accordingly, the current flatlining of key real economy metrics more likely represents a structural slowdown as opposed to a “breather period.” And the implications for China’s ability to grow its comprehensive national power are commensurately large since underlying economic capacity ultimately funds military power.

Strategy Drivers: Limitations (United States) vs. Liabilities (China)

For a strategy to succeed, it must sustainably link “means” to the “ends” it seeks—and be dynamically adjusted in response to events.²⁶ This requires recognizing the United States’ own limitations and, within those bounds, crafting and pursuing an approach that leverages existing, emerging, and future PRC strategic liabilities.

U.S. policymakers should aim not to suppress or “contain” China wholesale—both are practically unachievable—but rather, demonstrate American willingness to deploy whole-of-government, whole-of-nation, and whole-of-coalition power to shape Chinese behavior and impose costs on Beijing’s coercive envelopment activities in the Asia-Pacific. Shaping will take years of sustained effort. Ensuring credibility will require the United States to revamp and strengthen its forward military presence in the region as part of an integrated strategy that renews longstanding diplomatic and economic engagements with its treaty alliance partners, and ASEAN, including technology and trade agreements; while also amplifying newer bilateral relationships (e.g., with Vietnam) and multilateral relationships (e.g., in the “Quad” with Japan, Australia, and India).

Sino-American competition will span the DIME spectrum and be sharpest in maritime Asia, with global overtones. Moreover, although aspects of PRC behavior echo dynamics of Soviet behavior outlined by George Kennan in his 1946 Long Telegram, China presents a very different challenge from what Washington and its allies confronted during the Cold War. Kennan himself noted a key simplifying factor in formulating policy against the USSR: “Our stake in this country ... is remarkably small. We have here no investments to guard, no actual trade to lose, virtually no citizens to protect, few cultural contacts to preserve. Our only stake lies in what we hope rather than what we have.”²⁷

In contrast, the United States and its Asian allies have deep economic and cultural linkages with China. Even with attempts at supply chain decoupling in key areas, much of the economic latticework linking the PRC, Japanese, South Korean, ASEAN, and Australian, New Zealand, and United States Security Treaty (ANZUS Treaty) economies will likely long endure.²⁸ The Soviet Union was—aside from its nuclear weapons and other centrally prioritized megaprojects—in many respects a Potemkin village that never approached the industrial-economic capacity of today’s PRC. With a motivated leadership and population, China has grown into a systemically important global economic player, with a regionally unsurpassed military. Recognition of the PRC’s strategic capacities and potential for generating and applying world-class comprehensive national power for decades to come must be a cornerstone of U.S. strategy formulation.

U.S. Domestic Political Challenges

Domestic politics have always buffeted U.S. foreign policymaking, but over the past several years, turbulence and contradictions have intensified. This poses severe challenges for sustaining policies long enough to begin achieving the desired effects and for persuading allies to support a “competitive coexistence” approach likely entailing years of tensions tempered by periodic detente.

To retain and sustain its role as Asia’s long-term security balancer, the United States must also overcome a tendency to prematurely declare victory and move on. For instance, although the December 2019 U.S.-China Phase One Trade Agreement has been hailed as “historic,” it was unlikely even before the coronavirus pandemic that China would prove willing or able to ramp up purchases sufficiently to meet the deal’s conditions.²⁹ Moreover, the process of doing so likely further empowers the Chinese state-owned enterprises whose behavior exacerbates growing economic tensions between China and its trading partners.³⁰ And most fundamentally, a trade truce based on Chinese promises of greater commodity purchases will likely prove illusory so long as industrial espionage and anti-competitive practices continue to the detriment of America’s future global strategic position.³¹

Although American politics currently confront deep domestic divisions, China is one of the few relatively bipartisan areas of broadly shared concern. Pew Research Center data from a March 2020 survey show that 66% of U.S. respondents viewed China unfavorably—a meaningful increase from the 60% that expressed an “unfavorable” opinion of China when the same poll was taken a year earlier.³² The United States’ foreign policy community, elected and appointed officials, and voting public increasingly converge on a negative view of China. A remaining challenge: sustaining critical foreign and industrial policy decisions whose full payoff will generally be more than one electoral cycle in the future. Overt aggressive behavior toward Americans—for instance, Beijing detaining American citizens in China in response to prosecutions of alleged Chinese spies by the U.S. Department of Justice—could fuel additional domestic resolve for sustaining a robust policy of “holding the line.”³³

Needed: A Compelling International Narrative

In a long-term competition of ideas such as that now unfolding between Washington and Beijing, a compelling narrative is vital. Much of the strategic narrative derives from soft power. Soft power alone is insufficient to maintain or positively shift strategic balances, especially when a challenger deploys coercive power in the manner China has over the past decade vis-à-vis multiple Asian neighbors.³⁴ But it is arguably a necessary condition that, if adroitly woven in with economic and military power, both bolsters those instruments’ integrated effects and can also inform their usage in ways that further long-term American and regional objectives.

Washington must embrace a critical distinction: for the United States, soft power is a “greater than the sum of the parts” force multiplier that amplifies formidable but finite financial and military power, while China’s transactional approach is only as strong as the hard power underwriting the latest financial incentives it dispenses. Such influence could evaporate rapidly if China’s underlying power growth slows, domestic demands proliferate, and funds for purchasing influence abroad dissipate accordingly.³⁵

Beyond the transactional, Beijing seeks to use largesse to create dependence. Examples include the Belt and Road Initiative (BRI) and other PRC investments across the developing world; China’s economic engagements with Canada and many European countries, and its treatment of Australia and New Zealand. One of the narratives that China likes to project in selling its deliverables is that it is steady and consistent while the United States is capricious. Reality increasingly suggests otherwise. Hong Kong is a telling example—Beijing rapidly and blatantly dishonored local law and international treaty commitments once it was in a position of control. As part of holding the line, Washington must thus clearly publicize Beijing’s arbitrariness and unwillingness to be restrained, and then lead the effort to impose costs for revisionist actions, as well as breaches of international law and norms.

Beijing’s current approach to the world centers on extremely narrow self-interest, is fundamentally transactional, and if left unchecked, would likely leave many regional states subjugated as quasi-vassals. Some parts of this approach are specific CCP pathologies, while others reify antiquated imperial views. Chinese statesman Chang Chu-cheng captured this sentiment well in the 16th century, saying of China’s neighbors that “Just like dogs, if they wag their tails, bones will be thrown to them; if they bark wildly, they will be beaten with sticks; after the beating, if they submit again, bones will be thrown to them again; after the bones, if they bark again, then more beating.”³⁶ The contemporary “beatings” Beijing administers to insufficiently submissive neighbors have thus far generally been economic in character (notwithstanding the 1974 and 1988 maritime clashes with Vietnam and subsequent gray-zone operations). For instance, after the Philippine Navy attempted to enforce environmental regulations within its own Exclusive Economic Zone near Scarborough Reef in 2012, China reneged on its promise to return to the status quo ex ante, seized the disputed feature, and promptly curtailed imports of bananas from the Philippines, imperiling up to 200,000 farm sector jobs for the U.S. ally.³⁷

China’s use of coercion as a first-line policy and rising willingness to directly militarize the South China Sea while employing all three of its sea forces assertively there raise serious questions about how the climate could devolve if the United States reduced its commitment to freedom of navigation and upholding international law in the region. Already, maritime tensions between Turkey and Greece suggest that failing to sufficiently uphold norms of free navigation in the global maritime commons can have negative ramifications far beyond the Asia-Pacific.³⁸

American involvement across the region is also essential because strong institutional inertia will likely keep China on its current revisionist foreign policy path unless an even stronger external force can begin incentivizing behavioral changes. The CCP owns every single PRC policy decision since 1949. In general, so long as the leaders responsible for such deadly malpractice as the Cultural Revolution remained in power, they prioritized personal political survival rather than admitting failure and changing course. This trend will likely continue as Xi centralizes power and acquires increasingly personalized responsibility for China's foreign policy decisions—including those setting China on a path of confrontation with its neighbors and the United States alike. As Minxin Pei points out in a recent analysis, aggressive PRC policies will likely beget further confrontation and potentially trigger a feedback loop that could culminate in upheaval in China unrivaled since at least the Mao era.³⁹ The CCP's cultivation of an aggrieved nationalism and the idea that it is restoring China's rightful place in the world means in turn that domestic turmoil would likely be rapidly exported and magnify preexisting foreign policy pathologies.

While America's domestic situation remains a work in progress, it stands in stark contrast to China under Xi, where personal and especially, minority, rights have been steadily eroded in recent years as the PRC government augments its traditional suppression of dissidents with a comprehensive, technology-driven surveillance state. The situation in Xinjiang exemplifies Beijing's attempts to build what we term a "controlocracy." There, PRC authorities have combined pervasive surveillance with a Gulag-like internment camp system wherein at least one million people, primarily ethnic Uyghurs and other predominantly Muslim minorities, have been extrajudicially detained.⁴⁰ To the extent to which they acknowledge such abuses at all, the CCP and its defenders claim that they do not occur outside China's borders. This is clearly not the case, as seen in PRC efforts to conduct surveillance of targets worldwide, intervene in the electoral politics of other countries (e.g., Australia, Malaysia, Cambodia, the Solomon Islands, etc.), and even harass and abduct critics overseas for rendition back to China.⁴¹

China's Slowdown Will Force Hard Tradeoffs

For years, China has increased its defense budget at rates commensurate with—and now substantially exceeding—official GDP growth targets. As defense expenditures rose rapidly from an increasingly massive base, China's armed forces were transformed with increasingly advanced equipment.⁴² Now, with a growing share of modern platforms nearing the decade age-mark, the building-and-acquisition stage of PRC military modernization will soon share budget line-items with the continuing maintenance and midlife capitalizations needed to keep aircraft, ships, and other hardware in full fighting shape.

These formidable costs must be borne by any country wishing to compete in the high-tech-, maritime-, and aerospace-centric Asia-Pacific strategic environment. As Capt. Chris Carlson, U.S. Navy Reserve (Ret.), explains, “the cost of operating and maintaining a large navy has been the ‘rocks and shoals’ upon which every major sea power has run aground ...”⁴³ This has included the United Kingdom’s Royal Navy, the Soviet Navy, and most recently, to some extent, the U.S. Navy. For naval ships, the upfront acquisition cost may only account for 20% to 40% of the vessel’s life cycle cost, with sustainment costs accounting for the balance.⁴⁴ That means the navy operating those ships often effectively pays a lifetime sum equal to three or more times their original sticker price.

For China, the backend costs may be especially high because Chinese ship procurement long enjoyed lower-cost labor and large series production runs over which to spread fixed construction costs.⁴⁵ But life cycle economics are poised to bite. The massive cost of maintaining a growing, modern fleet means that if China’s economic growth slows before its navy is fully built out—much less maintained or sustained—China will likely soon face wrenching “guns vs. butter” and even “guns vs. canes” strategic choices.⁴⁶

Across China’s military (and naval paramilitary) services, the variable costs of operating equipment are rising just as personnel demand wages and in-kind benefits sufficient to retain them amid private sector competition and overall wage inflation in a rapidly aging society. Mounting costs in wages and benefits will likewise burden the gargantuan domestic surveillance and security component of China’s sprawling controlocracy.

Here again, China is rapidly incurring some of the same compounding costs that have plagued established powers like the United States. For example, increasingly generous non-salary benefits and pensions are proliferating and paying out, a process accelerated by Xi’s unprecedented post-2015 military reforms.⁴⁷ These have established new entities like the Strategic Support Force, emphasized more sophisticated personnel, demobilized thousands, and prioritized leading edge and frontier technologies like hypersonics.

Finally, if the PLA continues seeking to expand operations beyond China’s littoral and near neighborhood and function as a true “blue water” overseas force with at least a limited high-intensity presence beyond East Asia, its operational and maintenance costs will likely rise substantially relative to current levels. The costs of fuels and other consumables are set by global commodity markets and would be much more akin to what the U.S. Department of Defense and other militaries pay. These resources constitute major expenditures for any advanced power-projection military, particularly for one that remains far from integrating nuclear propulsion.

The closer China approaches leading-edge military operations, the more it loses the previous cost advantages from which it has benefitted tremendously. As in so many other ways, being a “fast follower” propelled China through years of post-Mao “catch-up” growth that reduced the gap with the United States dramatically in key areas.⁴⁸ But narrowing the gap further likely requires Beijing to advance upward along an increasingly steep and costly asymptotic curve that it will increasingly struggle to afford.

These rising security cost burdens come amid rising civilian social expenditures in an aging society now demanding the unprecedented construction of a comprehensive welfare state. Even though China has already invested considerably in health care and other societal assistance, the coronavirus epidemic is revealing many vulnerabilities and shortcomings. In the context of a country seeking regional military preeminence—and perhaps global power projection capabilities as well—steep, advanced hardware acquisition costs will increasingly compete for position in a balance sheet already crowded with mounting maintenance and personnel costs.

Increasingly asymmetric, missile-armed American approaches to offsetting China’s counter-intervention posture may also complicate PRC procurement strategies and potentially force the country to assume larger force needs than might have been the case even five years ago when Chinese asymmetric strategies had wrong-footed American opponents.⁴⁹ This is all the more reason that Washington can, and should, hold the line in the Asia-Pacific.

Political Centralization Compounds China’s Strategic Liabilities

Xi’s ongoing centralization of political power likely weakens the PRC’s ability to generate innovative policy solutions to looming demographic and economic challenges. The coronavirus pandemic has exposed serious flaws, including: (1) local officials withholding information because delivering bad news is career-compromising, and (2) the paralysis of local and provincial authorities absent explicit central government guidance. It is instructive to ask how the coronavirus crisis might have unfolded differently had Wuhan and Hubei had strong Bo Xilai-type leaders who felt empowered to take the lead in handling problems in their political jurisdictions. Yet this dispersion of personality and initiative is precisely one of the things that Xi has most sought to prevent through his extreme consolidation of power.

Technology Likely Cannot Rescue Growth

China’s efforts to become a global juggernaut in manifold emerging apex technology fields, most notably artificial intelligence (AI), have yielded much progress, but are no panacea for offsetting the adverse demographic and economic trends discussed above. Many structural obstacles lie between the present and the future era of techno-triumphalism Beijing craves. Ironically, achievement may itself prove to be

a barrier. There is a growing risk that “the successes of major Chinese technology companies may tend to be perceived as a threat to the Party’s monopoly on power, necessitating more forceful assertion of control over them.”⁵⁰ Furthermore, whether or not the Party tightens the reins on China’s emerging tech titans, its deepening controlocracy, exemplified by Party cells embedded in commercial entities throughout China,⁵¹ legitimizes fears that PRC-domiciled tech firms have effectively become arms of the Chinese state. This is already sparking significant backlash abroad and will likely impede PRC firms’ ability to develop and commercialize technologies that can achieve scale and influence beyond China’s domestic market.

A tightly Party-controlled environment will likely continue yielding innovations in existing technologies—including the AI-enabled panopticon-like domestic surveillance and control system already deployed in Xinjiang and being progressively deployed across China. But for developing new technologies, particularly those promising novel competitive advantages, a politically constrained domestic ecosystem is more likely to hinder than help China-based innovators. Furthermore, even if technology helps China offset some disadvantages of demographic decline and other structural headwinds, it will likely prove insufficient to enable American-style superpower success. Attaining surveillance singularity would entrench the CCP’s hold on power by allowing the preemptive quashing of dissent. But the creation of a *Minority Report*-style social control apparatus is unlikely to stimulate the growth needed to take the PRC across the middle-income trap and allow it to become a full-fledged superpower across the board.⁵²

Enforce the Line to Shift Beijing’s Risk Calculus

Holding the line is designed for implementation using existing resources within a budget framework similar to that seen in the past decade. What it does require more of is accepting greater friction and risk in order to allow the United States and its partners to immediately begin recalibrating the PRC’s cost-benefit assessments in the East Asian and Indo-Pacific strategic environments.

For maximum effect, such efforts must align with allies’ and partners’ strategic interests and concerns. Japan and South Korea fear China’s rising assertiveness, but also maintain substantial economic ties and face North Korea, a threat over which Beijing exerts significant influence. Meanwhile, Southeast Asian countries seek an international order that facilitates trade and connectivity, that is rooted in respect for international law, and that counts ASEAN itself as a central diplomatic player.⁵³ India, for its part, shares concerns about rising Chinese military power and the extension of a Chinese naval presence into the Indian Ocean region, but will likely avoid joining a Washington-led explicitly anti-PRC alliance. And Australia is a longtime American ally and strategic partner now beset by a panoply of PRC pressures and domestic interference.

Accordingly, American actions should be oriented to (1) achieve maximum strategic impact through existing resources (including in creative new combinations), (2) sustain bipartisan support domestically, and (3) reaffirm American commitment to maintaining an open, rules-based approach in the face of PRC malfeasance, utilizing legal, geoeconomic, and even carefully-tailored kinetic actions if necessary.

As the status quo power, the United States must be willing to accept temporary pushback as it strives to shape the PRC's behavior through a range of actions that, generally speaking, the challenger does not accept and will attempt to meet with countermeasures. History offers multiple examples of states—particularly Leninist ones like China with historical grievance-driven foreign policies—probing relentlessly. If competing powers fail to confront such actions decisively early on, the challenger state's appetite for further aggrandizement grows with consumption and can ultimately precipitate serious conflict.

China is arguably pushing toward just such an inflection point with its increasingly aggressive actions in the East Asian littoral, including violations of Japanese-administered air- and sea-space, construction and subsequent militarization of disputed reefs in the South China Sea, harassment of oil and gas exploration operations by companies from neighboring states, and frequent use of maritime forces to harass neighboring nations' fishermen.⁵⁴ Each of these individual challenges tests the boundaries of the status quo, and barring a sufficient international response, emboldens further actions to expand Chinese claims and undermine the American-led regional security architecture that has helped ensure peace for three-quarters of a century. The response to China's revisionist actions must ultimately be multilateral, but American action is the indispensable catalyst for initiating the process and sustaining the early stages when blowback from a not-fully-slowed PRC will likely be the most intense.

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Shoring Up Allies and Partners

As China, the United States, and key American partners in Asia—including several treaty allies—chart their respective courses amid this intensifying great power competition, two key questions arise: (1) can a more decisive set of American actions potentially alter China’s strategic course in a way that deters conflict? And (2) if the answer is “yes,” what are some of the most important concrete actions needed to effect this positive shift?

The ultimate outcome—avoidance of war between great powers—benefits all. But a period of serious turbulence likely lies ahead as thrusts and ripostes between China and the United States and its allies and partners unfold. Washington can tap enormous, hitherto largely latent, agency as it competes vigorously with Beijing, but the forces unleashed will require a whole-of-government effort. The below-mentioned actions represent a partial list, but deserve to be prioritized over the next two years as an immediate pushback against malign PRC behavior.

China recognizes the power of America’s alliances and partnerships—and will challenge them in at least five interlocking ways. First, it will attempt to damage Washington’s relationships with key allies and partners by portraying them as likely to draw the United States into conflicts inimical or irrelevant to American interests. Second, it will work to sow doubt among U.S. allies regarding Washington’s commitment to its treaty obligations. Third, it will frame the United States as a troublemaker likely to draw allies into conflicts with China. Fourth, Beijing will seek to keep its revisionist acts just below the threshold likely needed to provoke a response in order to generate uncertainty and erode trust and coordination between Washington and its allies to forestall or delay a timely crisis response. Fifth, Beijing will conduct influence operations throughout the Indo-Pacific as well as across North America and Europe to help promote such outcomes by framing thinking in terms that sow doubt and play up potential commitment problems in Washington and allied capitals.

Strong American diplomatic leadership backed by sharp economic and military teeth can blunt Beijing’s “doubt diplomacy” and help persuade U.S. allies to make matching efforts that augment the effort’s comprehensive impact and make it more sustainable. A multilateral effort would shift the alignment from “U.S. vs. China” to “multiple countries supporting a free, open, and anti-coercive approach to foreign policy vs. a China that wants to subordinate the entire region to its narrow interests.”

Here, Washington will have to take particular care in defining the line to be held. It is, for instance, unrealistic to reverse Beijing’s *fait accompli* of South China Sea feature construction without major kinetic operations. But it is much more realistic to take carefully-timed and -calibrated actions that illustrate the tenuousness of these toeholds hundreds of miles from the nearest undisputed PRC territory, along with

other measures to impose costs on recent revisionist actions in order to deter China from engaging in further seizures and buildups (e.g., on Scarborough Reef). The United States and its partners should openly articulate—and act upon—the principle that PRC actions from the Himalayas to the Ryukyus and elsewhere within the first island chain reflect an interconnected ecosystem of coercive envelopment and bullying.⁵⁵ It will be across this arc where countries seeking an open architecture for 21st century Asia must hold the line in this new era of great power competition.

The narrative matters here, as will the ability of the United States to support it. As Josef Joffe pointed out two decades ago, “The genius of American diplomacy in the 20th century was building institutions ... They cocooned and multi-lateralized American power, and they advanced American interests by serving those of others.”⁵⁶ Likewise, success in the emerging struggle will hinge upon the ability of the United States to convince partner countries that Washington intends to fully invest in the supranational security architecture necessary to protect and advance their interests, as well as its own, in the face of a Chinese foreign policy increasingly focused on bullying the country’s neighbors into submission and on acquiescence to Beijing’s revisionist desires and demands. As the lead advocate for an open Asia-Pacific, the United States must amplify its own resources by marshalling diplomatic, economic, and even military support from key treaty allies like Japan, South Korea, Australia, and the Philippines, along with numerous other regional partners including Singapore, Vietnam, Mongolia, Malaysia, Taiwan, and, in many respects, India.

Bolster U.S. Hard Power Credibility

Diplomatic credibility vis-à-vis China must be backed by robust military capabilities. Several issues demand immediate action. Some are dramatic and others more mundane but all are important.

First, Congress should begin appropriating funding for accelerated shipbuilding, with the target of a 355+ ship U.S. Navy by 2030.⁵⁷ This target is achievable if prioritized and could be accelerated with cost-sharing through enhanced foreign military sales to regional partners. Key ship types include destroyers, guided missile cruisers, attack submarines, and potentially, small, fast, and lower-cost vessels such as Taiwan’s *Tuo Chiang*-class corvettes for working to deny PLA Navy forces access inside the first island chain. A growing variety of unmanned and autonomous vehicles should play an increasing role. This is also where foreign military sales (FMS) and supporting development of systems by allies and partners can be useful, both operationally and in terms of financing and burden-sharing.

Second, forward-based platform repair facilities must be upgraded substantially. Any conflict would likely involve the worst attrition American forces have experienced since at least the Korean War, if not World War II. As such, the ability to replace destroyed platforms and restore damaged ones to fighting shape would be critical

in the event of such a low-probability, high-impact scenario. More immediately, it will serve as a demonstration of American commitment and be important to helping deter such a conflict from ever occurring in the first place. The United States should expect Beijing to bring substantial pressure on any regional government that were to host such facilities. One potential way to launch things would thus be to construct an ostensibly “commercial” repair and refurbishment facility that just happens to be built beyond market capacity and also capable of handling military repairs on short notice, and have the U.S. government quietly fund all or part of the project to de-risk it financially. Think of it as “ship repair geoeconomics.”

Third, Congress should significantly expand munitions procurement as soon as possible. In “Operation Iraqi Freedom” (OIF), attacking forces expended approximately 950 cruise missiles and nearly 20,000 total precision guided munitions in a one-month combat period involving an adversary far less target-rich than China.⁵⁸ Combat in the East Asian littoral would also be all-domain, involving air, naval, and land-based fires and thus likely be far more munitions-intensive than OIF or other recent U.S. operations have been. Manufacturing takes time to scale up, so to avoid running low on or running out of key munitions, procurement should be accelerated as soon as possible. As the United States works to restore economic activity in the wake of the coronavirus pandemic, disbursing large munitions manufacturing contracts would also bring tangible employment gains to multiple congressional districts, which can hopefully incentivize an accelerated, bipartisan endeavor.

Fourth, Congress should immediately fund accelerated efforts to harden U.S. basing facilities throughout the U.S. Indo-Pacific Command (INDOPACOM) region to protect aircraft, ships, fuel, and munitions from Chinese precision missile and air strikes. As part of this effort, Congress should also appropriate funds for building expanded and dispersed basing and forward operating options in secondary Pacific locations, including archipelagic Alaska (Adak, Amchitka, and especially, Shemya), Wake Island, Saipan, other U.S. territories, and freely associated Palau. Further, it should support a higher pace of moving key assets such as strategic bombers to ensure operational unpredictability (Figure 1).⁵⁹ These alternative basing locations have varying degrees of ability to host critical assets such as heavy bombers and tankers, but many have the potential to do so with some infrastructure investments. Moreover, the outermost Aleutian Islands lie within an approximately six-hour flight time to Northeast Asia—roughly the distance from Wake Island—and this would be less with the use of long-range standoff weapons. As part of broader preparations to forward-deploy mobile long-range precision strike assets across the region on an emergency basis, Attu, Agattu, and other islands in the area could also potentially be prepared to host ground-launched ballistic missiles, and even possibly other hypersonic weapons as they become operational.⁶⁰ Their operations would be much less weather dependent and could be housed in tunnels and hardened facilities that capitalize on the rocky and mountainous geography of islands

such as Attu. It is by demonstrating credible capabilities through measures such as these that Beijing can be deterred from going to war between now and 2035—the window of maximum risk.

Figure 1: Existing and Prospective Dispersed Basing and Forward-operating Options Create a 6,000+ Mile Arc Across the Pacific



Place	U.S. Territory?	Max Current Operational Runway Length (ft)	Potential Runway Length (ft)	Hours' Flight Time @ 500 MPH		
				Beijing	Shanghai	Sanya
Diego Garcia	N	12,000	—	10.8	9.4	6.2
Guam (Andersen AFB)	Y	11,200	—	5.0	3.9	4.8
RAAF Darwin	N	11,000	—	7.6	6.1	5.0
Shemya (Alaska)	Y	10,000	—	6.4	6.0	8.6
Wake Island	Y	9,850	—	6.8	5.9	7.4
RAAF Tindal	N	9,000	—	8.0	6.4	5.4
Saipan	Y	8,700	—	5.0	4.0	4.8
Tinian	Y	8,600	—	5.0	4.0	4.8
Midway	Y	7,800	—	7.8	7.2	9.0
Palau	N	7,200	—	5.2	3.7	3.7
Rota	Y	7,000	—	5.0	4.0	4.8
Attu (Alaska, Casco Cove)	Y	—	6,700	6.4	6.0	8.6
Amchitka (Alaska)	Y	—	10,000	7.0	6.4	9.0

Sources: Google Earth, Commonwealth Ports Authority, authors' analysis

Take Definitive Actions to Help Allies Assert Maritime Rights.

Washington should take the lead in helping allies and partner countries (to the extent they invite U.S. assistance) positively assert their maritime rights. One prong would entail U.S. freedom of navigation operations that in most cases are unilateral activities, but that may increasingly involve allies and partner states. U.S. naval forces conducted seven freedom of navigation operations (FONOPS) vis-à-vis China in 2019.⁶¹ Maintaining or exceeding this pace would be a “demonstrative” action to show Washington’s resolve in the face of excessive PRC maritime claims. These and related operations would also need to challenge other regional countries’ excessive maritime claims, given the overarching strategic objective of maintaining an open Asian maritime commons.

The U.S. Navy and Coast Guard should also begin engaging in “definitive” actions that affirm a readiness to go “hands on” in challenging PRC activities in the South and East China Seas that violate international and local law. Figure 2 (below) outlines six feasible actions that can be taken in short order to address emerging situations.⁶²

Figure 2. Definitive Actions to Support Allies and Partners in Maritime East Asia

Maritime Rights of Allies	“Definitive” U.S. Actions
Sovereign access to their offshore rocks and reefs.	Escort fishing vessels from allied nations. If necessary, use nonlethal means to protect them.
Sovereignty to fish within their own waters.	Escort fishing vessels from allied nations. If necessary, use nonlethal means to protect them.
Sovereignty to explore and exploit seabed resources in their own waters.	Escort fishing vessels from allied nations. If necessary, use nonlethal means to protect them.
Sovereignty to prevent poaching within their own waters.	Help allies arrest and charge Chinese poachers. Protect allies’ law enforcement vessels from Chinese harassment.
Sovereign right to prevent foreign theft of their seabed resources.	Help allies board Chinese ships and charge Chinese companies for operating illegally in allies’ waters. Protect allies’ law enforcement vessels from Chinese harassment.
Sovereignty to conduct military exercises in their own waters.	Conduct joint exercises with allies in their waters.

Source: Ryan D. Martinson and Andrew S. Erickson, “Re-Orienting American Sea Power for the China Challenge,” *War on the Rocks*, 10 May 2018, <https://warontherocks.com/2018/05/re-orienting-american-sea-power-for-the-china-challenge/>.

Still lower down the escalation ladder, the United States should help provide regional states with more advanced technology and training capabilities to better enable them to detect, report, and use nonlethal means to repel unwelcome PRC gray zone operations and incursions.⁶³ The United States should also consider taking the lead in publishing this information in an annual or even quarterly “PRC Malign Activities Report” focused on the Asia-Pacific region.

Information, Transparency, and Public Diplomacy

China has been steadily intensifying information and influence operations abroad for decades. In recent years, activities have evolved beyond propaganda. For instance, U.S. intelligence agencies believe Chinese operatives disseminated messages in March 2020 across social media platforms with the aim of sowing chaos and discord across America.⁶⁴ Beijing also supports pervasive influence operations in the political systems of key American allies such as Australia and New Zealand.⁶⁵ As Anne-Marie Brady explains, “Under CCP General Secretary Xi Jinping, foreign influence activities have gone into turbo drive. CCP United Front officials and their agents follow a longstanding policy of developing relationships with foreign and overseas-Chinese personages (the more noteworthy the better) to influence, subvert, and, if necessary, bypass the policies of the local government and promote the interests of the CCP.”⁶⁶

The United States should also consider taking the lead in publishing this information in an annual or even quarterly “PRC Malign Activities Report” focused on the Asia-Pacific region.

In some instances, corrective actions will need to be taken against China’s use of “magic weapons” of influence and information warfare. For example, Australia recently passed a sweeping federal “Foreign Influence Transparency Scheme Act” that creates a system “for the registration of persons who undertake certain activities on behalf of foreign governments and other foreign principals, in order to improve the transparency of their activities on behalf of those foreign principals.”⁶⁷ While this law does not specifically mention China, it comes on the heels of a classified investigation that then-Prime Minister Malcolm Turnbull ordered to examine Chinese government interference in Australian politics.⁶⁸

More broadly, the United States should lead a proactive public diplomacy effort that leverages its own positive narrative, as well as those of the other treaty allies and partner countries in the Asia-Pacific region. Each of these societies offers a positive counterexample to Beijing’s information distortion campaigns. U.S. public diplomacy efforts should emphasize the corruption rampant within China’s ruling establishment

by publicizing the financial activities of key Chinese officials and their close associates. China's leaders are sensitive to this, as evidenced by censorship of discussions related to the Panama Papers, as well as by pressure on *Bloomberg* for publishing a 2012 exposé on the finances of Xi's extended family shortly before he became paramount leader.⁶⁹

Here, support for investigative reporting and a free press is key. Since the best journalism operates independently, it is also possible to use the press to check PRC corruption as well as illegal and legal-but-frowned-upon behavior overseas. Supporting media literacy and fact-checking is also useful in addressing some of the efforts by the PRC to mislead. Taiwan has developed real expertise on this front and merits support as a center of excellence for media training and the countering of dis- and mis-information.

U.S. and allied efforts to publicize corruption by Chinese officials and their families/associates can also help curtail potential PRC-linked influence pathways within their own societies. Exposing assets and transactions suspected to have involved PRC officials or those connected to them can enhance vetting of counterparties and expose professional service providers such as accountants, bankers, and lawyers who may be facilitating PRC-connected financial activities that confer pernicious influence within America and its allies and partners.

Potentially Useful: Confidential Defense Diplomacy

With U.S.-China tensions poised to endure for many years, and quite possibly ratchet up further, functional diplomatic backchannels can help de-escalate conflict. While it takes two to tango and U.S. policymakers must never let down their guard, the following context should inform any efforts moving forward.

First, the present situation differs tremendously from the summer of 1989, when President George H.W. Bush secretly dispatched National Security Adviser Brent Scowcroft and Deputy Secretary of State Lawrence Eagleburger to Beijing in the wake of the Tiananmen massacre.⁷⁰ At that point in time, the primary U.S. policy concern was to maintain stable relations with Beijing as part of the triangular diplomacy Washington had used for the prior 15 years to maintain the PRC as a form of strategic leverage against the still-threatening Soviet Union. Today, in contrast, the PRC itself and its actions abroad (including against American treaty allies) are rightly regarded as the leading concern and threat in Washington.

Second, much of Xi's reign has involved multiple purges and campaigns against political opponents. In such an environment, trusted officials with the type of influence that would make them ideal back-channel contacts may in fact be reluctant to serve as "the one who talks to the Americans," lest a future campaign question their loyalty to the PRC or Xi himself.

Third, back-channel interactions between Beijing and Washington should not come at the expense of trust relationships with U.S. partners in the region, foremost among them Japan. The major regional flashpoints (for instance, the South and East China Sea disputes) generally invoke multiple sets of national interests. From a practical standpoint, this means that the United States should include Japanese and South Korean officials, and perhaps in some instances those from the Philippines and even Taiwan (based on the reality that “those who might otherwise end up shooting at each other” are inherently essential participants).

Defense diplomacy that emphasizes dialogue and the maintenance of communications channels and crisis protocols between military officers and senior civilian national security policymakers offers one potential option. As Daniel Katz puts it, the plethora of flashpoints in Asia “require[s] that the national security establishments of adversarial countries intensify their resolve to pursue discreet defense diplomacy, which has the potential to mitigate conflict and avert crises.”⁷¹ While no panacea, and no place for the naïve, it can sometimes add useful ballast.

Prior U.S.-China military exchanges tended to be more public and were arguably oriented more toward signaling and discouraging Chinese strategic ambitions (i.e., “let them see our impressive firepower up close”). These previous objectives have been overtaken by important realities, particularly China’s heightened awareness and assertiveness.⁷² The defense diplomacy Katz (and we) argue for would move on from that approach, and would instead prioritize the creation of both contacts and more institutionalized structures, perhaps modelled on the 1972 “Incidents at Sea Agreement” and 1989 “Agreement on the Prevention of Dangerous Military Activities” between the United States and Soviet Union.⁷³ These dialogues could potentially offer a forum for exploring, and possibly establishing and affirming, redlines and boundaries.

Confidential defense diplomacy would also allow each party to participate in the process without acquiescing to (or even recognizing) a competing party’s claims. Finally, it could help establish “all weather” communications channels transcending political transfers of power in any participating countries. There is a real chance that Beijing might decide to proceed with revisionist confrontation anyway despite confidential dialogues, but the stakes are high enough for all regional parties that a good faith attempt at establishing security-oriented backchannels is worth the effort. Washington should prepare for all contingencies.

The Technology Domain

Technology is a “winner take all” world, highlighting the differences between cost advantage—crucial in commodity markets—and the much more profound advantages conferred by proprietary control of access to, and use of, apex technologies. The country (or company) that establishes technological dominance does not just get the

prime corner of the sandbox. It also determines the box's shape, the type of sand and, at a basic level, the terms that others must meet to enter the box and play. A strong technology and innovation system is the economic equivalent of a nuclear "breeder reactor" that consistently generates more fuel than it consumes.

China has a formidable research and industrial base, supported by the world's largest organizational apparatus for acquiring and applying foreign technology. It excels at reverse engineering and producing an "80% solution" at an unbeatable price. Yet it still struggles to master some apex technologies that require high-performance interaction of complex systems-of-systems under challenging conditions, and

whose successful production occurs at the leading-edge interaction of engineering and physics. Examples include aeroengines for aircraft and marine propulsion as well as semiconductors.

On a related note, one of the most important technological force multipliers today and moving forward is the ability to fabricate state-of-the-art semiconductor chips. Despite massive investments, PRC-based fabricators remain significantly behind their competitors in North America, Europe, Japan, and Taiwan, in critical

part because mainland China must import the highly specialized semiconductor manufacturing equipment (SME) and operational expertise that lie at the heart of cutting-edge production. This is one of several reasons why Taiwan is absolutely central to American interests in the Asia-Pacific. Allowing Taiwan to become PRC-controlled could, in techno-industrial base terms, have a negative impact akin to that caused by the relinquishment of Czechoslovakia's Škoda Works to Nazi Germany.⁷⁴

The narrow supplier base and location of all relevant suppliers in the United States and its close allies confer tremendous strategic leverage for ensuring continued semiconductor dominance. As Saif Khan and Carrick Flynn indicate, "SME export controls imposed by the United States, the Netherlands, and Japan could decisively maintain China's continued dependency on democratic states for chips at or near state-of-the-art."⁷⁵ Given that firms in the United States and Europe generally operate on a fully commercial basis, it will be vital for policymakers on both sides of the Atlantic and Pacific to support robust export controls on chip-related goods and equipment. As a sweetener and to reduce the risk of key chip foundry capacity being so close to Chinese military power, the United States may consider as a matter of policy creating special zones on U.S. territory where it helps cover the cost of Taiwan Semiconductor Manufacturing Company (TSMC) constructing fabrication capacity and thereafter permits the company to run those facilities as if they were located on Taiwanese soil.

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Clear guidelines must put SME manufacturer management teams on notice that (1) finished chips with transistor sizes larger than 16 nanometers may be sold without restriction while smaller transistor sizes require an export license, (2) sales of sensitive chip-related goods—such as lithography equipment or design software—to manufacturing facilities anywhere globally that PRC entities own a financial interest in or otherwise have physical and data access to should cease, and (3) if a firm continues pursuing such business with PRC entities or PRC-influenced bodies, it should expect severe, perhaps even existential, consequences for doing so.

The Way Forward: Weathering the Window of Vulnerability

Strategic uncertainty pervades the Asia-Pacific today. American success is not guaranteed. But fundamental societal and economic factors are likely to prove far more favorable to Washington than Beijing over time. In contrast, China faces tremendous demographic and financial liabilities right as the economic growth it needs to meet an expanding portfolio of obligations is slowing significantly. Even if not yet obvious, the constraining effects of an economic slowdown, political stasis, and demographic decline will increasingly weigh on China's comprehensive national power accretion. And regional strategic assessments have not yet "priced in" such future scenarios.

In what some have termed the "Chamberlain trap," appeasement failed in 1938 Europe and 1930s Asia.⁷⁶ While the world differs in critical respects today, if the dominant power (America) does not decisively resist revisionist challenges early on, the challenger state's (China's) hubris and appetite for further aggrandizement will grow and risk ultimately precipitating serious conflict. Moreover, this is not a rerun of historical scenarios wherein a revisionist power can pose relatively low-cost and effective challenges to an ossified architecture that no longer functions well. The software package needs some updates, but not wholesale replacement. Washington can, and should, capitalize on that reality. Additionally, there is a tremendous difference between attempting to roll back a rival's gains and maintaining one's established position by strengthening a widely appreciated system. China itself can benefit if it plays by the rules, but the rules should not be dishonored at Beijing's whim.

The United States should thus lead the defense of an open, rules-based Asian order by holding the line against PRC revisionism, proactively challenging and imposing costs and consequences on Beijing's "Phase Zero" efforts—such as South China Sea feature seizures and gray zone operations. Washington and its allies and partners have a menu of diplomatic, economic, and kinetic options at their disposal to confront such aggression, recalibrate PRC perceptions of risk, and thereby offer a better path to long-term Asia-Pacific peace and prosperity. In recent years, Washington has

deployed certain tools such as maritime operations more assertively and regularly. But to hold the line, the United States will need to substantially scale up the scope

Washington has deployed certain tools such as maritime operations more assertively and regularly. But to hold the line, the United States will need to substantially scale up the scope and frequency of countermeasures over time. Time will tell, greatly. And, if Washington holds the line in the Asia-Pacific, time will be on America's side.

and frequency of countermeasures over time. Time will tell, greatly. And, if Washington holds the line in the Asia-Pacific, time will be on America's side.

Taken together, American efforts to hold the line in the Asia-Pacific will raise Beijing's cost of coercion, while buying time for manifold power-sapping effects of (1) an aging population, (2) citizens' growing and changing expectations, (3) rising debt burdens, and (4) uncertainty about the future economic growth model Beijing will need to fund its growing list of major strategic commitments in and beyond East Asia to come home to roost.

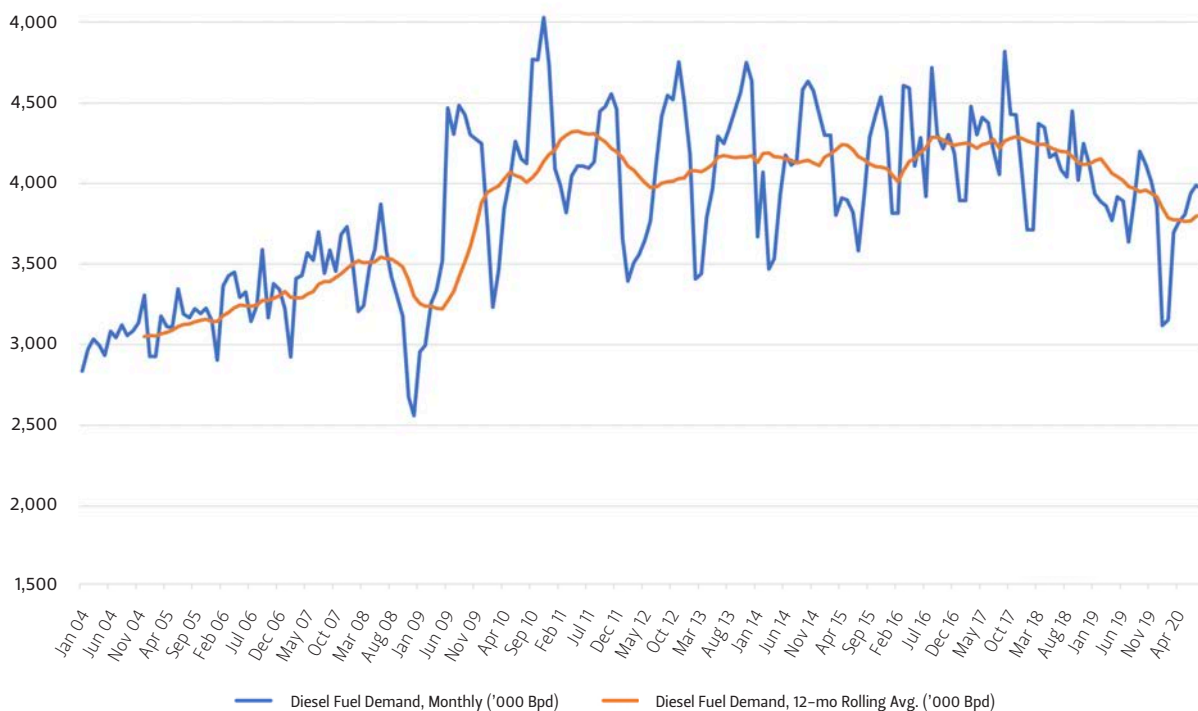
“Holding the line” allows Washington to dynamically adjust its actions based on developments in China and not prematurely mortgage its national interests, or those of its allies, based on bluffing by a China playing with a weaker hand than the world thought it had. Challenges lie ahead, but the journey is worth it and the path is clear: America should hold the line against Chinese revanchism through 2035.

“Holding the line” allows Washington to dynamically adjust its actions based on

Appendix A: Key Commodities Trends Reflect China's Real Economy Slowdown and Regression Toward Mean Global Growth Rates

For the past five years in China, demand and supply of cement and sulfuric acid have essentially plateaued. Cement carries obvious importance in this construction-centric economy. The same is true for sulfuric acid, a systemically critical industrial input for products as diverse as fertilizers, foods, gasoline, metals, paper, and pharmaceuticals.⁷⁷ Structural stagnation extends to diesel fuel use as well. Diesel offers a useful, fairly comprehensive window into China's real economy activity level, as trucks (predominantly diesel-powered) transported approximately 73% of total freight volume in 2019.⁷⁸ For more than five years now, diesel demand in China has stagnated—a trend identifiable as early as 2016, and thus significantly predating coronavirus (Figure 3).⁷⁹

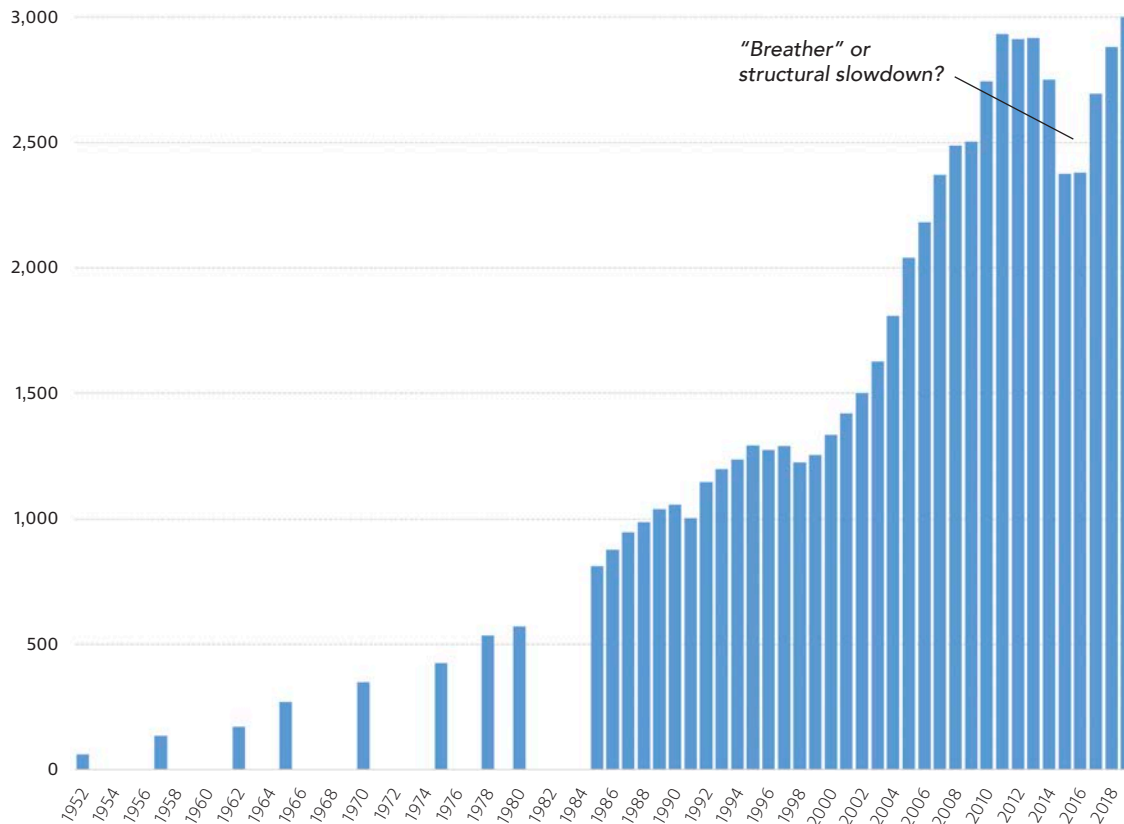
Figure 3: China Diesel Fuel Demand ('000 Bpd)



Sources: Joint Organisations Data Initiative (JODI), authors' analysis

Chinese rail freight volumes—a key indicator that Premier Li Keqiang himself has used to track economic growth—offer a fourth window into real economy activity trends. Rail freight volumes have flatlined since 2011, actually declined in 2015 and 2016, and did not exceed the 2011 level until 2019 (Figure 4).

Figure 4: China Annual Rail Freight Volumes (Billion Tonnes-Kilometers)



Source: National Bureau of Statistics (NBS), China

The shifting in rail traffic patterns from 1978-2011 and 2011 onward suggest the real economy growth engine of the prior three decades has downshifted.⁸⁰ From the beginning of economic reforms in 1978 through the Tiananmen massacre in 1989, rail freight volumes approximately doubled. Traffic expanded again during the 1990s until the 1998 Asian financial crisis. Thereafter, from 1999-2011, traffic exploded as China’s railways moved increasingly massive quantities of coal and other goods to underpin that era’s rapid economic growth. Subsequently, rail traffic has stagnated.

Growth in river freight volumes through China's Yangtze heartland—the equivalent of the Mississippi Basin in American waterborne logistics—has likewise slowed. If two more years of data continue to show plateauing, these rail and water freight trends likely mark a structural shift toward slower real economy growth.

Electricity consumption—likewise emphasized by Premier Li—offers a fifth window into China's economic status. Electricity usage in China has increased—albeit at widely varying rates—during each of the past five years. Power usage increased by 6.6% in 2017, by 8.4% in 2018, but by only 4.5% in 2019, according to data from the China Electricity Council.⁸¹ The near-term power use slowdown is congruent with the broader body of evidence—including consumer markets such as automobiles, where sales growth slowed dramatically even before coronavirus—pointing to a meaningful flattening of China's growth curve.⁸²

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