“Turbulent Waters: (Mis)Managing the Rise of China”

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The U.S.-China power transition is approaching a critical juncture. The rapid improvement of China’s relative economic influence and naval capabilities in East Asia has challenged the East Asian security order and long-standing U.S. regional security interests. And as the gap in U.S.-China maritime capabilities continues to narrow, the challenge of maintaining regional stability and great power peace will grow. In these rapidly changing strategic circumstances, the demand for moderate and judicious U.S.-Chinese leadership is especially acute.

Power transitions are always difficult and the U.S.-China power transition is no exception. As a rising power, China is expected to seek greater security in East Asia. It cannot be satisfied with a regional order that was established when China lacked naval capabilities and that grants the United States unchallenged access to naval and air force facilities in its allies and security partners on China’s periphery from the Korean Peninsula to the Malaccan Strait. The mere presence of the superior U.S. Navy and Air Force on China’s coastal periphery challenges Chinese economic interests and its maritime interests. Since the collapse of the Soviet Union, China has criticized America’s Cold War alliances and its challenge to this order is the expected ambition of a rising power.

But it has been difficult for the United States, East Asia’s dominant and status-quo maritime power to acquiesce to a revised regional order that would present the United States
with reduced security. American security since the onset of World War II has relied on an East Asian maritime order that has constrained any regional power from dominating East Asia and challenging U.S. maritime dominance in the Western Pacific. U.S. regional partnerships have been the foundation of that security order. Just as superior U.S. capabilities on China’s periphery challenge Chinese security, the rise of Chinese economic and maritime capabilities, relative to U.S. capabilities, necessarily challenges the U.S. alliance system and U.S. security in East Asia.

As the U.S.-China power transition has intensified, competition and tension between rising China and status-quo United States has increased throughout East Asia, contributing to a changing regional order. Moreover, should China continue to rise, the regional order will continue to evolve, great power tension will increase, and U.S.-China conflict management will become both more important and more difficult.

But the ultimate level of great power tension and the full extent of U.S.-China conflict will not be determined by the power transition. Structural determinism is a fallacy. Leadership and policy choices matter. As the U.S.-China power transition intensifies, leaders in both the United States and China will need to exercise restraint and patience to manage the power transition to minimize the likelihood of unnecessary and unintended yet costly conflict escalation.

**China as a Great Power: Economic and Security Trends**

*The Rise of the Chinese Economic Power*
In nearly all of the dimensions of economic power, in the past decade China has expanded its regional and global presence, thereby enhancing its political influence over traditional U.S. security partners in East Asia. China’s economic rise includes its expanded importance in international trade and market power, in international trade institutions, and as a provider of international investment and aid.

In trade relations, China has emerged as the most important export market for countries throughout the world. In East Asia, China is the most important export market for South Korea, Japan, Singapore, Malaysia, Thailand, and Taiwan. Traditional U.S. partners are thus now more dependent on China than on the United States for economic growth, prosperity, and political stability. For South Korea, Singapore and Malaysia, export dependency on China is especially acute, amounting to nearly ten per cent or more of their GDP. Moreover, the economic trends are in China’s favor. Inasmuch as the Chinese market is four times larger than the U.S. market and the Chinese GDP growth rate is greater than the U.S. GDP growth rate, the exports of third parties to China will increase more rapidly than their exports to the United States, leading them to ever greater dependence on the Chinese market. Thus, China’s importance as an East Asian economic power will grow over the next decade. This is particularly the case for countries dependent on exports of natural resources and agricultural products, including Thailand, Malaysia, and the Philippines.

China has also been active in promoting regional trade agreements. It has reached bilateral trade agreements with South Korea, Singapore, Australia, and New Zealand. In 2004 it concluded the China-ASEAN Free Trade Area (CAFTA) agreement, which came into full force in 2010. China is now negotiating a China-South Korea-Japan free trade agreement, an upgrade to the 2004 CAFTA agreement, and an Asia-wide Regional Comprehensive Economic
Partnership. Chinese participation in regional trade agreements contributes to its greater relative economic influence in Asia, especially in the aftermath of the U.S. withdrawal from the U.S.-sponsored Trans-Pacific Partnership.

China’s emergence as a trade power is reflected in its growing tendency to use economic sanctions to compel U.S. security partners to accommodate Chinese interests. ¹ Chinese economic sanctions against South Korea, Japan, and the Philippines, in retaliation against their “unfriendly” policies toward China, have been part of a broader strategy to compel these countries to reduce their strategic cooperation with the United States. China’s economic sanctions against South Korea contributed to Seoul’s compromises on deployment of U.S. missile defense in South Korea and to Manila’s decision to moderate its policy on the disputed territories in the South China Sea, despite Manila’s legal victory over China at the international Permanent Court of Arbitration.

Chinese foreign aid has also enhanced China’s regional economic influence. Since 2009, China’s national budget for aid and development loans has been greater than the U.S. budget for aid and loans. President Trump’s effort to reduce the U.S. aid budget has enhanced Chinese importance in providing development assistance. Since 2009, China’s establishment of the Asian Infrastructure Investment Bank (AIIB) and its development of its Belt and Road Initiative (BRI) for infrastructure development around China’s periphery and beyond have made China the most important source of infrastructure development funding throughout East Asia. Nearly every country in East Asia has joined the AIIB and has developed a partnership with the BRI.

The Changing Naval Balance

The recent development of the China’s navy is as impressive as the rise of Chinese economic power. China now possesses a large and growing number of many classes of modern naval ships, including highly capable submarines, destroyers, frigates and fast-attack craft. Its submarines can obstruct US naval access to East Asia’s internal seas. Its surface ships are equipped with advanced cruise missiles that can target U.S. surface ships throughout the region. And its land-based ballistic missiles extend Chinese targeting capabilities to the furthest reaches on the South China Sea and to U.S. facilities on Guam. Moreover, China is modernizing its aircraft industry, making progress toward production of advanced indigenous aircraft and reducing its dependence on Russian aircraft production. Altogether, the naval and air capabilities of the People’s Liberation Army increasingly challenge US air and naval dominance throughout maritime East Asia.

Moreover, China’s construction of military logistics facilities in the South China Sea contributes to the expansion of Chinese air and naval presence in the southern reaches of maritime East Asia. Its construction of seven artificial islands on reefs in disputed waters in the South China Sea does not enhance Chinese war-time capabilities or the alter the US-China naval balance, but these sites enable China’s Navy and Coast Guard ships and Chinese military aircraft to maintain a continuous presence in waters near U.S. security partners, including the Philippines, Singapore and Malaysia, contributing to greater Chinese coercive power. China’s man-made islands also make possible more frequent Chinese surveillance of U.S. air and naval operations throughout the South China Sea.

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The result of China’s military modernization program and its land reclamation activities is that China is no longer simply a rising military power. It is now a naval great power in East Asia. U.S. advanced technology, experience, and training have enabled the United States to retain regional military supremacy, but the gap between China and the United States has narrowed considerably; China is now an East Asian power competing with United States for strategic influence and the alignment of the smaller countries throughout East Asia. The Chinese leadership has acknowledged that China is now a great power. It promotes a “new type of great power relations” and it is developing its own style of “great power diplomacy.”

*Chinese Successes in East Asia*

China’s success at closing the economic and military gaps in U.S.-China relations has significantly advanced Chinese interests throughout East Asia and has brought heightened competition and tension with the United States.

Throughout East Asia, every country is adjusting its policies in response to the rise of China. As Chinese economic and military power has grown, with the exception of Japan, they have all improved strategic cooperation with China, seeking a greater strategic balance between the United States and China. These trends have already produced a revised regional order that better reflects Chinese interests.

During the presidency of Park Geun-hye South Korea developed enhanced security ties with the United States, including the deployment in South Korea of the U.S. terminal high-altitude area-defense (THAAD) missile defense system. The range of the system’s radar covers much of Chinese territory. As noted above, China-South Korea relations deteriorated as China imposed costly economic sanctions on South Korea and reduced defense ties. But following the
election of Moon Jae-in as South Korean president in May 2017, Seoul quickly moved to improve Sino-Korean relations. After his inauguration, Moon’s first phone call was to Chinese President Xi Jinping. Most important, Moon reversed the policy of his predecessor, Park Geun-hye, regarding U.S. deployment in South Korea of the THAAD defense system.

To restore cooperative economic and diplomatic relations, the Moon administration assured Beijing that 1) Seoul would not allow any additional deployments of THAAD in South Korea; 2) the existing THAAD systems in South Korea would not be integrated into a U.S.-Japan-South Korea missile defense system; 3) South Korea would not integrate its security policy with the U.S.-Japan alliance, thus suggesting that it would also not participate in the U.S.-led Indo-Pacific coalition. This was first time that South Korea had ever reached an agreement with Beijing that expressly committed South Korea to limit its cooperation with the United States.

The Philippines has also adjusted its security policy to accommodate rising China. Under President Benigno Aquino, the Philippine Navy detained Chinese fishing boats operating in disputed waters inside Scarborough Shoal, and it cooperated with the United States at the Permanent Court of Arbitration to challenge Chinese sovereignty claims over waters in the South China Sea. The Philippines had challenged Chinese interests, but it was not clear how Aquino’s policy had served the Philippines’s interest. These waters have, at best, insignificant mineral deposits and strategic influence. And it was a fool’s errand to think that a legal victory would shame China into succumbing to the decision of five men sitting in Europe and thus relinquish its long-held sovereignty claims in the South China Sea.

Predictably, Philippine policy elicited strong Chinese resistance. The Chinese cordoned off the lagoon inside the disputed Scarborough Shoal, preventing Philippine boats from entering traditional Philippine fishing waters. With vessels of the People’s Liberation Army Navy hovering nearby, Chinese coast guard boats also harassed Philippine boats fishing in disputed waters near Scarborough Shoal and elsewhere in the South China Sea. At the same time, Chinese sanctions against Philippine banana exports to China weakened the Philippine economy. Moreover, the Philippines found itself isolated in Southeast Asia. Other Southeast Asian countries, with the partial exception of Vietnam, understood the minimal economic value of the disputed territories and waters and the costs of challenging Chinese sovereignty claims; they maintained their distance as the Philippines contended with China both at the Permanent Court of Arbitration and in Southeast Asian diplomacy.

Given the high costs and questionable benefit to Philippine interests in cooperating with the United States to challenge Chinese sovereignty claims, it was perhaps just as predictable that President Rodrigo Duterte, Aquino’s successor, would reverse Philippine policy. He distanced the Philippines from the United States, stating that court’s decision was irrelevant to the Sino-Philippine dispute and that the dispute was best ignored, rather than negotiated. He reduced U.S.-Philippine naval cooperation in disputed waters and expanded Chinese naval access to Philippine ports. During his visit to China, he declared that in economics and military affairs, “America has lost.” In response, China restored cooperative economic relations with the Philippines, pledging $24 billion in aid and military assistance to the Philippine’s battle against its Muslim insurgency,

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and it allowed Philippine fishing boats to return to Chinese-claimed waters in the South China Sea.

Vietnam has also reevaluated cooperation with the United States. In 2012 Hanoi welcomed Secretary of Defense Leon Panetta to Vietnam. Panetta reported said that U.S. access to Cam Ranh Bay “is a ‘key component’ of U.S.-Vietnam relations.” In 2014 the Obama administration lifted the ban on U.S. arms sales to Vietnam and in 2015 it agreed to expand U.S. exports to Vietnam of military equipment and technologies, provided aid to Vietnam to purchase U.S. ships, and included Vietnam in its Southeast Asia Maritime Security Initiative, helping Vietnam bolster its maritime intelligence, surveillance, and reconnaissance capabilities. In 2018, a U.S. aircraft carrier anchored off the Vietnamese coast near Danang.

But, in a manner similar to South Korea and the Philippines, Vietnam adjusted its policy to accommodate Chinese interests. After heightened maritime tension in 2011–2012, Vietnam jailed anti-Chinese nationalists, restrained its support for the Philippines in its dispute with China, and assured China that it would not involve the United States or international law in its dispute with the PRC. In 2014, when Chinese oil drilling in disputed waters led to a maritime confrontation and to anti-Chinese demonstrations in Hanoi, Vietnamese leaders expressed regret for the protests and assured China that it would not challenge the status quo in the South China Sea. In 2017, Vietnam ended its joint oil drilling operations with the Spanish energy company Repsol in Chinese-claimed waters inside the Vietnam-claimed special economic zone.

China has also expanded defense cooperation with Southeast Asian countries. In 2015 China and Malaysia held their first joint military exercise and in 2017 they established a high-level defense committee to expand cooperation. In 2017 China and ASEAN agreed to hold their first region-wide naval exercise and in 2018 Chinese and Southeast Asian naval forces staged
their first computer-simulated drills to enable joint responses to maritime emergencies. Chinese-led naval exercises pale in comparison to the size and sophistication of U.S.-led exercises, but they are part of a larger trend of growing region-wide security cooperation with China.

**The American Response to Rising China**

All of these developments in Chinese policy present clear challenges to the U.S.-dominated post-World War II Asia-Pacific regional security order. They challenge the stability of American cooperation with its allies and security partners in East Asia and the security of U.S. naval operations throughout maritime East Asia. And they have elicited a strong U.S. response aimed at constraining Chinese naval expansion and at maintaining the stability of U.S. alliances in maritime East Asia.

*Expanded U.S. Naval Presence in East Asia in East Asia*

The Obama administration decided that the rise of China required the U.S. Navy to deploy a larger percentage of its fleet in the waters of East Asia and the Western Pacific, and the Trump administration has developed what it calls the “Indo-Pacific” strategy. Faced with China’s challenge to U.S. alliances and naval superiority in East Asian seas, the Indo-Pacific strategy promotes naval cooperation with Japan, India and Australia. Those states can provide access to air and naval facilities that are far from China’s mainland and secure from Chinese missiles and submarines. The United States is also expanding the range of its aircraft to enable power projection into the South China Sea from facilities in India and Australia.
As China has challenged the East Asian security order, Washington has increased the size and the frequency of its high-profile naval operations in East Asia to signal its commitment to maintaining the regional order. Its freedom of navigation operations (FONOPS) aim at more than simply reinforcing the U.S. commitment to international legal principles. Rather, high-profile and frequent FONOPS in close proximity to Chinese reclaimed territories in the South China Sea seek to make clear, to both Beijing and America’s security partners, that the United States will resist Chinese challenges to the maritime status quo and that it will fulfill its commitments to defend its allies. During the Obama administration, the U.S. Navy carried out highly publicized operations within twelve miles of Chinese reclaimed islands and Chinese-claimed islands and reefs. With the Trump administration, the frequency and scale of these operations has increased.

U.S. Naval Build-Up.

The U.S. response to China’s naval expansionism has also focused efforts to strengthen U.S. naval capabilities. The U.S. Navy is developing longer-range ship-based anti-ship missiles and longer-range torpedoes to contend with China’s modern navy and missile systems. It is developing “dispersed lethality” capabilities to contend with the threat of attacks on U.S. naval vessels by “swarms” of Chinese ships. It is also developing directed energy and long-range anti-ship hypersonic railgun technologies. Most significant, the Navy is focused on developing large quantities of drones as its cost-effective and long-term response to the rise of China’s naval power. It is developing undersea anti-submarine and anti-mine drones, miniature reconnaissance drones that can allow simultaneous targeting of multiple Chinese platforms, carrier-based attack
drones and refueling drones, air-launched electronic warfare drones, and unmanned surface vessels for minesweeping operations.\(^5\)

U.S. economic policy has also suggested its determination to resist the rise of China. The Obama administration’s ill-advised opposition to China’s Asian Infrastructure Investment Bank signaled Beijing that Washington opposed even the most benign Chinese initiatives. And President Trump’s protectionist trade policies signals China and suggests to the entire region U.S. intention to weaken the Chinese economy and reverse the rise of China.

**Challenges of the Power Transition**

The U.S.-China relationship is approaching a critical stage. The power transition in East Asia has accelerated, and the gap between American and Chinese capabilities has significantly narrowed. This trend has challenged the regional order and has contributed to a significant escalation in U.S.-China strategic competition. Maritime tension in the South China Sea, in particular, is increasingly worrisome. Moreover, the power transition will likely intensify over the next decade. This trend in U.S.-China relations can undermine regional stability and it will heighten the risk of U.S.-China maritime hostilities.

Thus far, both U.S. diplomacy and Chinese diplomacy have contributed to increased great power tension, rather than to constrained power-transition competition. Chinese observers routinely accuse the United States of trying to prevent the rise of China. Regardless of actual U.S. intentions, Washington has signaled China that this is its intent: Trump’s rapid escalation of

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the U.S.-China trade conflict, the U.S. Navy’s high-profile exercises in the South China Sea, U.S. insistence on deployment in South Korea of a radar system for THAAD that can cover Chinese land-based missile sites, its effort to develop a strategic presence in neighboring Vietnam, and the rhetoric in U.S. government reports all suggest uncompromising opposition to increased Chinese strategic presence in East Asia.

But, regardless of China’s actual intentions, Chinese diplomacy has signaled its intent to oust the United States from East Asia. Since 2012, China has carried out a succession of coercive economic sanctions against U.S. allies South Korea, Japan and the Philippines; its ships have forcefully challenged Japanese and Philippine maritime claims; it declared an air defense identification zone for the East China Sea; it began drilling for oil in disputed waters in the South China Sea; it engaged in extensive construction of artificial islands in the South China Sea and then conducted a rapid military build-up on these maritime platforms. It should not be a surprise that the United States, as well as many East Asian countries, have become suspicious of Chinese intentions.

In this context, it is worrisome that U.S. and Chinese military ships and aircraft now operate in close proximity to each other with increasing frequency. They routinely shadow each other’s operations, and Chinese ships now challenge U.S. ships conducting FONOPS in Chinese-claimed waters. Despite the development of the U.S.-China Code for Unplanned Encounters at Sea (CUES) and other conflict-management agreements, close encounters at sea frequently occur and accidents can happen.⁶

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There have been earlier post-Cold War incidents in U.S.-China relations, including the 1999 U.S. bombing of the Chinese Embassy in Belgrade, the 2001 collision between U.S. and Chinese military aircraft over the South China Sea, and the 2009 encounter in the South China Sea, during which the surveillance ship USS Impeccable sprayed an approaching Chinese ship with its fire hose. In each of these cases, the United States and China acted with restraint. China still pursued “peaceful rise” and the United States advocated “engagement” with rising China. They thus cooperated to deescalate quickly the conflicts and restore cooperative relations. But in the future, as the power transition approaches a critical stage in which American and Chinese power is more evenly distributed, it is not at all clear that either China or the United States will be able to exercise similar restraint. During a crisis, Chinese political and military leaders may believe it is necessary to assert China’s role as an East Asian great power, and U.S. leaders may believe it is necessary to confirm America’s status as the region’s dominant maritime power, thus increasing the likelihood of significant pressure for crisis escalation.

At this juncture in U.S.-China relations and in the evolving regional order, it is incumbent upon both China and the United States to develop judicious security policies that help to ensure a stable transition to a transformed U.S.-China regional balance of power in which China shares leadership with the United States in the East Asian security order.

For Chinese leaders, regardless of their perception of U.S. policy and of U.S. “containment” of China, and regardless of their long-term intentions for China in East Asia, stability will require that China wield its enhanced economic and military capabilities with patience and restraint. A policy of patience and restraint will not interfere with Chinese realization of its security objectives; as China rises, gradual political change will assure it greater security in East Asian waters. In the past, China’s peaceful rise contributed to the Taiwan
leadership’s and public’s tacit acknowledgement that Taiwan cannot be an independent country; that actively seeking sovereign independence is detrimental to Taiwan’s security and economic interests and is no longer an option for Taiwan’s diplomacy. China peaceful-rise diplomacy has also contributed to improved security cooperation with nearly every East Asian country. Should China’s rise continue, countries in East Asia will continue to increase strategic cooperation with China. But a patient and restrained rising China will moderate U.S. and regional threat perception and the likelihood of a costly American over-reaction. Chinese patience and restraint will help to constrain great power tension and to avoid of unintended crisis escalation.

For its part, regardless of its understanding of Chinese “revisionist” or “hegemonic” intentions and Chinese assertive diplomacy, as long as China continues to rise the United States will need to adjust to America’s eroding regional hegemony. Washington will need to accept that it can no longer be the dominant naval power in East Asia, to acknowledge China’s legitimate security interests in East Asia, and to share with China leadership of the regional order. The United States can adjust to China’s rise while maintaining U.S. security. U.S. maritime dominance in the South China Sea is not a prerequisite for security; regardless of China’s rise, the United States will remain a consequential great power in East Asia.

The United States, too, must exercise strategic restraint. It must not resist every Chinese initiative simply in order to announce, both to China and to U.S. security partners, that Washington is determined to maintain its status as the dominant East Asian maritime power and a reliable alliance partner. U.S. intransigence will undermine China’s interest in a policy of patience and restraint.

To reduce the likelihood of unnecessary tension and conflict escalation, U.S. and Chinese leaders will need to exercise authority over national decision making, including civilian control
of military decision-making. They will also have to resist nationalist pressures from society and/or from political opposition either for military approaches to conflicts of interests or, at moments of acute tension, for crisis escalation. Nationalism has been a significant factor in many prior power transition conflicts.⁷ Constructive U.S. and Chinese conflict management will require U.S. and Chinese leaders to resist such nationalist pressures and the temptation to use nationalist diplomacy to enhance their domestic legitimacy.

During this era of rapidly transforming great power relations, the United States and China share unique leadership and responsibilities for the maintenance of East Asian peace and stability. Given current trends in U.S. and Chinese diplomacy, the prospects for maintaining great power stability are not good. China of late has shown minimal patience and restraint in pursuit of great power status in East Asia on par with the United States, and the United States has shown minimal willingness to concede to China a greater role in establishing a revised regional order.

The course of U.S.-China relations since normalization of relations in 1979 has created the foundations of a great power relationship that can avoid the extremes of the U.S.-Soviet Cold War. Economic and cultural cooperation will co-exist with greater U.S.-China security conflict. And U.S.-China cooperation on global issues, including on the environment, drug trafficking, human trafficking, nuclear proliferation, and maritime piracy, will continue, constraining tendencies toward polarization and a Manichean relationship. Sustained economic and cultural cooperation and on-going cooperation on global issues can thus help to mitigate the inherent tension associated with the U.S.-China power transition.

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Nonetheless, bilateral and global cooperation will not be a substitute for Chinese restraint in its use of its improved maritime capabilities or for U.S. accommodation to its reduced role in regional affairs. In great power relations, it is all too common for security interests to drive heightened instability and crisis escalation, despite extensive cooperation in other areas.

The course of U.S. China relations will depend on whether or not U.S. and Chinese leaders can develop policies of patience, restraint, and accommodation as they both adjust to China’s rising capabilities. Accommodating a new power into the international system is perhaps the most difficult challenge for diplomacy. But this is the challenge that confronts both American and Chinese leader. Given current trends in both Washington and Beijing, there is reason for concern that leaders in neither country are up to the task.