



# Managing Strategic Competition

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How can the US and China compete for influence without escalating tensions into open conflict, particularly in the South China Sea and Taiwan Strait?

## Strategic Context and Background:

The strategic competition between the United States and China, particularly in the South China Sea and Taiwan Strait, is characterized by a complex interplay of historical territorial claims, economic interests, and military posturing. China's assertive maritime claims in the South China Sea, backed by its "nine-dash line" and the militarization of artificial islands, directly challenge international norms as defined by the United Nations Convention on the Law of the Sea (UNCLOS). The United States has countered these moves through freedom of navigation operations (FONOPs) and strengthened alliances within the Quad (U.S., Japan, India, and Australia).

## Stakeholders and Interests:

- China: Seeks to assert control over the South China Sea to secure vital sea lanes, access potential underwater resources, and enhance its strategic military positioning. China's ambitions extend to reunification with Taiwan, viewing it as a core national interest.
- United States: Aims to uphold international maritime law, ensure freedom of navigation, and counterbalance China's regional dominance. The U.S. also supports Taiwan's democratic government against potential Chinese aggression.
- Regional Actors: Countries like Vietnam, the Philippines, Malaysia, and Brunei have competing claims in the South China Sea and are wary of China's expansive claims. Taiwan's security is

also a critical issue for Japan and South Korea, who rely on stability in the Taiwan Strait for their own security.

## Capabilities and Resources:

China has developed significant Anti-Access/Area Denial (A2/AD) capabilities, including the deployment of advanced missile systems and the construction of military facilities on artificial islands. The United States maintains superior naval power projection capabilities and technological advantages, along with a network of regional allies.

## Trends and Dynamics:

The current trends show a cycle of provocative actions and counteractions. China's "gray zone" tactics, including the use of maritime militia and fishing fleets, increase the risk of accidental or intentional escalation. The U.S. response involves more frequent and visible military operations, alongside diplomatic efforts to build regional coalitions

## Scenarios and Implications:

- Best-case scenario: All parties agree to establish new communication channels and protocols to manage encounters and prevent miscalculations.
- Worst-case scenario: Miscalculations or aggressive actions could escalate into open conflict, potentially drawing in regional allies and leading to a broader military confrontation.
- Most likely scenario: Continued strategic competition with episodic tensions, where both sides avoid direct conflict but remain vigilant and prepared for potential escalations.

## Implications for American Multinational Companies:

- Risks of Exposure to China:
  - Companies face regulatory challenges and potential retaliatory measures from China, disrupting supply chains and market access especially as a retaliatory measure to pressure the United States government.
- Opportunities for Growth in Other Markets:
  - Diversifying investments and operations into Southeast Asia, India, and Africa can mitigate risks associated with over-reliance on China.
- Strategies for Mitigating Risks:

- Develop contingency plans for supply chain disruptions, invest in innovation, and establish partnerships in alternative markets

Managing the strategic competition between the U.S. and China in the South China Sea and Taiwan Strait requires a delicate balance of deterrence, diplomacy, and coalition-building to prevent escalation into open conflict while safeguarding international norms and regional stability.