



# STATE OF THE GAME

## BUILDING PACAF'S COMPETITIVE MINDSET

MAY 2021

### MANAGING ESCALATION DURING COMPETITION

**Established lines of communication during competition are critical to escalation management in crisis.**

On 1 April 2001, a U.S. Navy EP-3 reconnaissance aircraft was conducting routine operations 70 miles off Hainan Island when a People's Liberation Army Air Force (PLAAF) J-8 [collided](#) with it during an unsafe intercept. During the collision, the J-8 broke in two, resulting in the pilot's death. The EP-3 lost two engines and suffered major structural damage and controllability problems. Due to the severe damage caused by the J-8, the EP-3 made an emergency landing at the first suitable airfield on Hainan Island in the People's Republic of China (PRC). The 24 crew members were detained for 11 days and departed Hainan on 12 April.

Multiple [reports](#) confirmed that the EP-3 had its autopilot engaged and was flying straight and level during the intercept, as would be expected from a 4-engine, propeller-driven aircraft that is 100 feet in length. It is also commonly believed that the J-8's aggressive and unsafe approach to the EP-3 was the cause of the mid-air collision. However, the Chinese Communist Party (CCP) insisted that the nearly 40-ton EP-3 maneuvered toward the J-8 in an attempt to ram the fighter. The PRC claim was never supported by evidence, because the PRC refused to release flight data or cockpit voice recordings.

Despite the carelessness of the J-8 pilot, the PRC was uncooperative throughout the incident and aftermath. They failed to establish any communication with the U.S. despite persistent American attempts to contact the PRC at a high level for 48 hours following the accident.

It is difficult to assess what specific considerations or calculus drove the PRC to approach the accident

from such an opaque and non-cooperative position. Some experts speculate that growing nationalism and anti-American sentiment in China forced the PRC leadership to adopt a hardline position.

Experts [state](#) "the PRC Government condoned, if not fueled, violent attacks against U.S. diplomatic facilities in China, the leadership this time censored inflammatory condemnations from discussions on the Internet and controlled the government-owned media, and there were no fierce demonstrations." Other experts [suggest](#) that the PLA deceived its own government, casting doubt on the CCP's control of the military, stating the "PLA tried to cover up its own mistakes (including dangerous maneuvers by its pilot who caused the accident, damaged a U.S. aircraft, and almost killed 24 U.S. personnel) and deliberately provided false information to civilian leaders."

**Why It Matters:** The PRC's unwillingness to cooperate poses a danger to safety of flight and navigation in a peacetime environment, but during a crisis this intransigence could lead to lethal miscalculation. While U.S. military interaction with the PLA over the past twenty years has generally been safer, it does not eliminate the possibility of another deadly mishap.

As competition between China and the United States intensifies, managing escalation is key to avoiding conflict. The U.S. is advocating for the necessity of [establishing crisis mechanisms](#) and a defense "hotline" with the PRC, but the PRC must show growth from its mistakes two decades ago and meet the U.S. halfway.

# THE WAR OF THE YUAN: WEAPONIZING THE WORLD'S SECOND LARGEST ECONOMY

**Global economic coercion by the PRC threatens the rules-based international order.**

Since China opened its economy in [1978](#), it has established itself as the world's second largest economy behind the United States. The PRC's \$14 trillion gross domestic product (GDP) reflects the performance of the [only major economy](#) to grow during a tumultuous 2020, despite the global pandemic that originated within China's borders. Now established as a major player in the global economy, the PRC has weaponized its market share through economic statecraft designed to coerce and punish nations that stand up to malign Chinese influence. On several notable occasions, the PRC has utilized its economic might to send a message to U.S. partners refusing to fold to its demands.

## Republic of Korea

In 2016, [South Korea](#) agreed to host the U.S. Terminal High Altitude Area Defense (THAAD) system despite threats of retaliation from the PRC. In response, "Beijing retaliated by halting group tours to South Korea; refusing to issue licenses for Korean videogames in China; stopping K-pop concerts; shutting South Korean giant Lotte's supermarkets throughout the country, and more. In 2017 alone, South Korea's losses as a result of the THAAD retaliation were estimated to be \$7.5 billion — a 0.5 percent hit to gross domestic product."



## Philippines

In 2012, the [Philippines](#) and the PRC were locked in a standoff over Scarborough Shoal in the highly contested South China Sea. China took advantage of its status as the Philippines' third largest trade partner at the time, refusing to allow Filipino produce to enter Chinese markets. Much of the produce was destroyed or left to rot, causing untold damage to the Philippines' agriculture industry.



## Australia

Like much of the world, [Australia](#) is calling for a probe into the origin of the COVID-19 pandemic that first surfaced in Wuhan, China. The PRC is angered by this quest for truth, as well as the banning of controversial Chinese telecom giant Huawei from building the Australian 5G network. The PRC once again employed its economic weapons, taking advantage of its place as Australia's biggest trading partner to sanction goods such as wine and beef, and causing Chinese investment in Australia to plummet by 61% in 2020.



**Why It Matters:** The PRC's financial growth has afforded it the opportunity to utilize its economy to coerce rivals and expand its malign influence. China's reach continues to grow in an increasingly globalized economy, weakened by a global pandemic. Even countries outside the Indo-Pacific region, like [Germany](#) and [Norway](#), are feeling the effects of the PRC's predatory economic statecraft. As the PRC continues to employ its economic might in harmful ways, it is vitally important that the United States maintains a unified front with its allies and partners, provides a viable alternative to the PRC's debt trap diplomacy, and continues to champion adherence to established and agreed-upon international rules and norms.

