



Statement before the House Foreign Affairs Subcommittee on Asia

Detering gray-zone aggression

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July 28, 2022

Chairman Bera, Ranking Member Chabot, and members of the committee, it is an honor to be invited to testify here today. I appreciate the opportunity to discuss gray-zone aggression, which presents a formidable problem to the US and its allies in the Indo-Pacific and beyond.

Gray-zone aggression presents such a formidable problem because it takes place below the threshold of armed military violence. This presents a baffling problem to the United States, which has become used to being able to intervene in crises—and deter hostile action—through its military. But powerful and skilled armed forces can do little when the mode of aggression involves punishing companies for the statements or actions of their home governments (as Beijing has recently done to companies based in Australia, Lithuania, Sweden, and Taiwan). A powerful military is also of little use when the mode of aggression involves excavators regularly digging up sand from another country's seabed and in doing so not only harming the other country's natural habitat but also stealing an increasingly rare natural resource.¹ This is, as you know, a regular occurrence off Taiwan's Matsu Islands. Powerful armed forces can do little to deter gradual border changes of the kind that China conducts not just in the South China Sea but also along its border with Bhutan.²

Indeed, armed forces are supremely unsuited for defense against gray-zone aggression and deterrence of it precisely because gray-zone aggression is gradual, hard to detect, and often hard to distinguish from the bustle of the globalized world. At the same time, it is imperative that democracies—including America's allies in the Indo-Pacific—better defend themselves against gray-zone aggression. Allowing the current situation to continue will not just lead to the immediate harm caused by various acts of gray-zone aggression; it will also undermine citizens' trust in the viability of their countries' institutions and political systems. If a democratic country cannot protect its private sector from wanton punishment by a hostile state, it creates uncertainty among companies and citizens alike. If a country cannot protect its seabed from regular incursions by another country's excavator armies, citizens may begin to suspect their country is unable to defend itself against other threats too.

If China's gray-zone aggression against Taiwan continues to grow, we risk seeing a situation where global insurers can no longer model the many risks facing companies operating there. When insurers cannot model the risk, they cannot price it either, which means they cannot provide coverage. If Chinese gray-zone aggression against Taiwan continues to grow, Taiwan could in other words become partly uninsurable.

It is, in fact, vital for the stability of democratic societies to have better deterrence of gray-zone aggression. As we have seen, deterrence by military punishment will either have little effect against gray-zone aggression or be wildly inappropriate and therefore not credible. Fleets of Chinese excavators digging up sand off the Matsu Islands are a good example of gray-zone aggression that needs to be deterred. These uninvited visitors have been arriving for several years now, excavating until forced to leave by the Taiwanese coast guard.

The number of sand dredgers peaked in 2020, but the problem persists, forcing Taiwan to expend more money and resources on its coast guard. The Taiwanese government has never announced a baseline for its territorial waters around the Matsu Islands, which are close to China. The UN Convention on the Law of the Sea stipulates that territorial waters extend 12 nautical miles from a country's territory.³ Taiwan instead operates a "restricted waters" policy, which encompasses a smaller area. Either way, the Chinese excavators continue to dredge sand in these delicate waters. China thereby robs Taiwan of a crucial resource that is becoming rarer due partly to China's massive construction boom, and it also

harms Taiwanese natural habitats. To be sure, these offenses are less serious than an invasion or land grabs, but like all gray-zone aggression, it is also not negligible. The fact that the fleets of dredgers still appear, and still dig up sand, demonstrates that Taiwan's coast guard is only managing to temporarily disrupt each uninvited visitor.

But equally, the dredgers would not be deterred by a US aircraft carrier because China knows that Washington would not send bombing missions against diggers. How, then, to deter such elusive and hard-to-detect aggression that uses means that liberal democracies would not be prepared to use against their adversaries? Prospective Taiwanese or US threats to send excavator armies to Chinese waters in response to the Chinese digging sand in Taiwanese waters would hardly frighten Beijing, simply because such threats would be as unconvincing as any talk of sending an aircraft carrier. Defense against gray-zone aggression is so fiendishly difficult that I called my book about it *The Defender's Dilemma*.⁴

There are ways to better deter gray-zone aggression in the Indo-Pacific region. Since deterrence is about signaling to a prospective aggressor that his prospective aggression will not yield the desired benefits, the first step countries—both countries located in the region and those connected to it through business links and in other ways—should take is to signal that they are united against gray-zone aggression and will respond to it. Indeed, they should signal, NATO style, that one or more allies of the targeted country will avenge any act of gray-zone aggression, and those countries will do so in a manner of their own choosing. Any retaliation should clearly take place in the gray zone—what is known as horizontal escalation. As with traditional military threats, the threatened country does not need to specify exactly how it would retaliate against aggression, but the information should be specific enough to convince the hostile state to refrain from aggression.

Allies are vital in this context, because they may have something the aggressor wants or may be able to hurt the aggressor in specific ways. Consider visas. Nobody has the right to get a visa to another country: Granting, or not granting, visas is every country's prerogative. The United States and other allies of, say, Taiwan could signal that if China continues to send excavator missions to Taiwanese waters or if Beijing again blocks imports of Taiwanese goods to punish Taipei, these countries will retaliate by suspending the visas of Chinese citizens of their choosing. They should, of course, also signal that these will be citizens with strong links to the government, as threatening to suspend the visas of ordinary Chinese citizens would hardly change Beijing's cost-benefit calculus.

The private sector is another crucial partner in gray-zone deterrence signaling—or rather, it should become one. In recent months, Western companies operating in China have become extremely concerned about the risk of doing business there. In the 2022 edition of insurance broker Willis Towers Watson's political-risk report,⁵ the company found that the share of businesses concerned about the risk of doing business in the Asia-Pacific region rose to 95 percent, from 62 percent in 2020. Significantly, 57 percent were concerned about Europe and Russia, up from 41 percent in 2020. The 2022 report also found Argentina and China to be the countries where companies had incurred the most political-risk losses—a remarkable change from 2020 and 2021, when the list was topped by Iran and Venezuela and Egypt and Russia, respectively. A new report from the Swedish National China Centre finds that one-third—and likely more—of all Chinese “consumer boycotts” of Western brands are linked to Beijing and that US brands are particularly vulnerable to such boycotts.⁶ The boycotts often see a company targeted as a proxy for a Western country.

But even though companies are extraordinarily concerned about the risk of doing business in China, they will remain there until the situation becomes intolerable. This makes them open for deterrence cooperation with their home governments and other Western governments, because it is in their interest, too, to signal to prospective aggressors—in this case Beijing—that the aggression will not be worth the effort. Deterrence signaling involving the private sector would be most suitable as deterrence by denial, not deterrence by punishment, as companies may be wary to be part of any punishment messaging vis-à-vis Beijing. Teaming up with leading companies—whether consumer brands or manufacturing giants—to signal that gray-zone aggression targeted against Western industry will not yield the desired results because the companies will be able to withstand the harm would help reduce the gray-zone activity.

Another aspect to consider is that gray-zone aggression's fluid nature makes it difficult for the targeted country to determine at what level the aggression is unacceptable and must be deterred. If one excavator arrives to dig up sand once, it is clearly an annoyance but not such an egregious violation that the defending country must mete out punishment. Similarly, if the aggressor country puts one slab of concrete on another country's seabed, it may be wise to let the act go rather than punish it and risk escalation. But if hundreds of diggers regularly arrive to dig up sand, and if the aggressor country builds complete islands, this clearly constitutes aggression that must be punished. Or rather, the defender country must signal that such acts of aggression will be punished—and thus help prevent them from happening. But what is the threshold above which gray-zone aggression must be punished? There is no agreement about it, neither within individual governments nor among allies.

There are more tools of deterrence by punishment and deterrence by denial in the gray zone, which I am happy to discuss with members. But the bottom line is that because deterrence is about psychology, the countries wishing to deter gray-zone aggression must signal their intent to withstand it and punish it. If their activity consists solely of avenging gray-zone aggression after it has deterred, the aggression will continue. As in military domains, the prospective aggressor must know what awaits him if he pursues the aggression. And if he knows it's a decidedly negative picture, he is unlikely to pursue the aggression.

Thank you again for the opportunity to discuss this vital subject.

¹ Elisabeth Braw, "China Is Stealing Taiwan's Sand," *Foreign Policy*, July 11, 2022, <https://foreignpolicy.com/2022/07/11/china-stealing-taiwan-sand>.

² Devjyot Ghoshal, Anand Katakam, and Aditi Bhandari, "China Steps Up Construction Along Disputed Bhutan Border," Reuters, January 12, 2022, <https://graphics.reuters.com/CHINA-BHUTAN/BORDER/zjvqknaryvx>.

³ UN Convention on the Law of the Sea, Part II, December 10, 1982, https://www.un.org/depts/los/convention_agreements/texts/unclos/part2.htm.

⁴ Elisabeth Braw, *The Defender's Dilemma: Identifying and Deterring Gray-Zone Aggression* (Washington, DC: AEI Press, 2022).

⁵ Sam Wilkin, "2022 Political Risk Survey Report," Willis Towers Watson, March 31, 2022, <https://www.wtwco.com/en-US/Insights/2022/03/2022-political-risk-survey-report>.

⁶ Elisabeth Braw, "Why Corporate Apologies to Beijing Backfire," *Wall Street Journal*, July 24, 2022, <https://www.wsj.com/articles/why-corporate-apologies-to-beijing-backfire-taiwan-china-ccp-beijing-consumers-dior-boycott-uyghurs-11658689342>.