

September 3, 2026



# Executive Summary Report

With the ongoing Iranian conflict and the sizeable U.S. Joint military forces spread thin in areas outside of the Middle East and Mediterranean, concerns are increasing about China becoming more emboldened in the Indo-Pacific while the U.S. is distracted.

There are two major flashpoints that could lead to conflict between China and the United States. The one that draws the most attention is China's claim of sovereignty over Taiwan. For perspectives on the thorny Taiwan situation, please see the report earlier this year: [Bancroft GEOIntelligence Executive Summary Update on Taiwan Security Implications and Economic Considerations](#).

The other potential trouble spot revolves around China's claims throughout the South China Sea (SCS). Since 1949, China has claimed sovereignty over most of the SCS, including sovereignty over all the sea's islands; internal waters, territorial seas, and contiguous zones of those islands; Exclusive Economic Zones (EEZs) and continental shelves of these islands; and historical rights of nations bordering the SCS.

China's national interests in the SCS are driven by a combination of economic, security, and regional hegemony considerations. China's actions in the SCS, such as island building and militarization, have raised increasing concerns among its neighbors and the international community; its claims in the SCS are disputed by many countries.

The United States' bilateral mutual defense agreements with Japan, the Philippines, and South Korea are of key importance; if Chinese aggression escalates to conflict, the U.S. would be obligated to defend its allies in the region. This is different from SCS scenarios regarding Taiwan, because the U.S. defense scenarios with Taiwan are intentionally ambiguous.

For the United States and its regional allies and partners, allowing China to claim sovereign territory would signify that the PRC can pressure governments into submission on matters of international maritime law and territorial integrity. Both points are foundational to the United States' commitment to protect the global commons and to Taiwan's autonomy from China. Ceding either point will erode the basis underpinning America's strategic interests in the region.

## **SCS Regional Key Players:**

The key actors, their interests, and their actions indicate a complex web of moves, countermoves, history and ahistorical claims, maritime law, and challenges to the global order as supported by international law and protocols.

**China:** Overall, China's national interests in the SCS are driven by a combination of economic, security, and geopolitical considerations.



[GEOIntelligence@bancroft4vets.com](mailto:GEOIntelligence@bancroft4vets.com)

At the heart of the regional dispute is China's set of lines on its maps reflecting Beijing's claims to areas of the SCS – known as the “Nine-Dash Line” (NDL). As drawn by the PRC, the NDL encompasses almost the entirety of the South China Sea and impinges on the legal territory and natural resources of at least seven nations (please refer to this link for an image of the NDL: [Wikipedia.org link to Nine-Dash Line](https://www.wikipedia.org/wiki/Nine-Dash_Line)). China has demanded that nations in the region and internationally observe its claim to territory inside the NDL, which has no historical basis, nor does it reflect the body of maritime international law. Rather, it is a major pillar of China's expansionist efforts and nefarious ambitions.

China's national interests in the SCS include several features. First, China wants to secure its territorial claims demarcated by the NDL, including control of the islands, reefs, and resources within this area. Second, China demands exclusive access to resources in the SCS. The SCS is believed to hold significant oil and natural gas reserves, and China seeks to exploit these resources for its economic development. Third, China intends to protect its strategic sea lanes, as the SCS is a critical maritime route for global trade. China aims to control these sea lanes to safeguard its economic interests and project power. Fourth, by controlling the SCS, it would constrain U.S. influence in the region. China views the U.S. presence in the SCS as a challenge to its regional dominance, and it seeks to limit U.S. influence and establish itself as the dominant power in the region. Finally, China desires regional hegemony. China's goal is to establish itself as the regional hegemon in the Indo-Pacific. Control over the SCS is a crucial step towards achieving this goal.

China has embarked on long-term strategic initiatives to create the basis for its claims in the distant future.

First is China's Global Security Initiative (GSI). The GSI primarily exports police and police services to countries of geopolitical, economic, and strategic importance to China. The GSI concept promotes several security and diplomatic activities that would help China achieve its global security ambitions. It centralizes China's position as a major world power within the reform process of global security approaches and mechanisms for security. The GSI reaffirms the role of multilateral organizations, including the United Nations and the Association of Southeast Asian Nations (ASEAN), and promotes the adoption of Chinese security norms and operational practices.

The GSI has an equally insidious twin, the Global Development Initiative (GDI). The two are interconnected through the Chinese Marxist belief that “security is a prerequisite for development, and development is a guarantee for security,” otherwise known as “peace through development.” In reality, this is a coercive economic strategy designed to subordinate nations to Chinese policy and economic preferences on the global stage. Xi first outlined this proposal to the United Nations General Assembly in 2021 “to help revive global efforts to achieve the [UN's] Sustainable Development Goals” by 2030. But just as the GSI aims to guide discourse on global governance, the GDI's goal is to usurp the international dialogue on the global development agenda, place it under Chinese tutelage, and infuse it with Chinese pseudo-principles that stress Chinese global dominance.

These twin initiatives are China's “blueprint” for transforming the global order. They are likely part of a corpus of ideas still to come. All are meant to be mutually reinforcing, aimed at forging an increasingly comprehensive vision of a new global governance system. In its vision of the future,

China will lead, and the international system will be friendlier to autocratic governments. Sovereignty will come at the expense of individual liberties, while universal values such as democracy and human rights, which have been at the core of world affairs for decades, will be stripped from global governance.

Then, there is the Global Civilization Initiative (GCI), which is an attempt to win global buy-in for China's principle of non-interference by conflating modern-day regimes with traditional culture. As part of this broader framing effort, Beijing introduced the GCI to the world in March 2023, which promotes a state-focused and state-defined values system and marks another effort by Beijing to eliminate universal values in areas such as human rights and democracy, in line with principles in the GSI. The GCI is an effort for China to foster a "Community of Common Destiny," which Xi and the Chinese Communist Party are advancing as Beijing's alternative to the Western-dominated "rules-based international order." The GCI advocates against a world in which those concepts can have meaning through united efforts to call out and collectively act against those who violate them. Under the GCI, perceptions of such "common aspirations" are "relative" and thus countries must "refrain from imposing their own values or models on others."

The final point is that not only is China increasing its irresponsible escalations against Taiwan, but it is also doing so across much of the SCS. Either situation can draw the U.S. into crisis, or worse, conflict with China. Take, for example, recent aggressions in the SCS. For the last several years, the Chinese Coast Guard and aircraft have intensely harassed Japanese fishing vessels in the eastern portion of the SCS. The latest victim of Chinese aggression is the Philippines. China has interfered with the Philippines' resupply of its Sierra Madre, a former warship that was intentionally beached on a shoal claimed by the Philippines in 1999, with Filipino Marines on board continuously as a visible symbol of the Philippines' territory. Most recently, China has rammed and is alleged to have boarded Filipino ships in the disputed sea space, injuring crew.

**United Nations' Perspective:** The United Nations Convention on the Law of the Sea (UNCLOS) includes a procedure for arbitration where there are disagreements with territorial and water-space claims. Interestingly, the UNCLOS was ratified by China in 1996. After arbitration on China's claims, UNCLOS concluded that China had not exercised exclusive and continuous control over the area and that certain maritime features lie within the exclusive economic zone of the Philippines. The 2016 Permanent Court of Arbitration ruling against China, which declared its claims illegitimate, became the basis for Indonesia's campaign against the NDL. Later, a senior UNCLOS bureaucrat stated that the 1982 UNCLOS does not recognize any supporting evidence in history (much less national mythology) as the basis for making sovereignty claims.

In July 2026, 14 governments called for the ruling to be respected on the 10<sup>th</sup> anniversary of the agreement. In addition, the EU (representing 26 nations) signed a separate statement that China must agree with the ruling. Rejecting the ruling, Beijing has persisted in seeking recognition of its claims, particularly from Southeast Asian nations.

**Indonesia:** The most populous Islamic nation in the world does not recognize China's claims to the territory cited in PRC's NDL. Parts of the NDL overlap Indonesia's EEZ and, therefore, have no legal basis.

However, Indonesia muddled its own waters by entering into an agreement for “joint development” of resources that overlap areas claimed by both China and Indonesia. By recognizing the overlapping claim with China, Indonesia has broken the tradition of claiming sole sovereignty, which could create a precedent of sorts across the many disputed boundaries of the SCS. For example, Indonesia alone has maritime boundaries with 10 states: Australia, Timor-Leste, Papua New Guinea (PNG), Palau, the Philippines, Vietnam, Thailand, Malaysia, Singapore, and India. Geographically, Indonesia invited China into this neighborhood, which significantly changes the power dynamics in the region. Under UNCLOS, Indonesia has a right to negotiate a maritime boundary delimitation for an exclusive economic zone, continental shelf, or territorial waters, yet the other nations have no say in the matter.

Regionally, the bordering nations believe that Indonesia should not negotiate a maritime boundary delimitation with China, given that the PRC is located far beyond the 200 nm exclusive economic zone and the 350 nm continental shelf. Collectively, they believe that Indonesia allowed a fox into the henhouse. Ceding China legal access, the region’s stressed resources will tax the smaller nations’ abilities to provide and protect themselves.

**The Philippines:** It has categorically rejected the NDL, stating “China’s claim over the entire SCS is against international laws.” Further, the Philippines brought the legal case against China in the United Nations Convention on the Law of the Sea, which judged against China in the Philippines’ favor. The Philippines’ strategic interests in the SCS include security concerns due to China’s increasing assertiveness, protecting its territorial claims based on proximity and international law, and ensuring freedom of navigation for trade and access to resources like oil and natural gas. Finally, last month, as the Philippines resupplied its Sierra Madre outpost in the SCS, at the Second Thomas Shoal, the Chinese Coast Guard violently boarded and damaged Philippine supply craft, which injured service members and intentionally blocked medical evacuations. This is very concerning; at some point, the Philippines may declare such actions an attack necessitating a U.S. response in accordance with the bilateral mutual defense treaty.

**Taiwan:** The Taiwan autonomy/independence flashpoint rides on China’s claim to Taiwan, which it views as a province of the mainland. At one point, China added two dashes to the NDL with the dashes incorporating Taiwan into China’s sovereignty, making it the “Eleven-Dash Line” (EDL). In the end, China has embraced the NDL and no longer advocates for the extra dashes that included Taiwan, but separately and with consistency over the decades, highlights that Taiwan must return to China’s sole sovereignty.

**Malaysia:** Government leaders have not explicitly stated policy and strategic interests in the SCS. However, some trends are visible to observers that are primarily focused on economic stability and regional peace. First, it seeks to maintain a balanced relationship with both China and the United States to avoid being drawn into conflicts and to protect its own economic interests. Second, like other ASEAN countries, it has a vested interest in maintaining peace and stability in the South China Sea to ensure the security of trade routes and access to resources. Finally, Malaysia has overlapping claims with other countries in the Spratly Islands. It likely aims to protect these claims while avoiding direct confrontation with China. Note that the U.S. does not have a bilateral defense agreement with Malaysia.

**Vietnam:** Government officials also reject the Chinese claims, citing that the claims are baseless and contrary to UNCLOS provisions. Overall, Vietnam's strategic interests in the South China Sea are complex and multifaceted, reflecting its determination to protect its sovereignty, ensure its security, and promote regional stability in the face of growing challenges. Like that of Malaysia, the U.S. has no bilateral agreement to defend Vietnam.

## SCS Key Stakeholders Outside of the Region:

**United States:** The United States does not recognize China's claims to the SCS. Caitlyn Antrim, the Executive Director for the Rule of Law Committee for the Oceans of the U.S., commented, "The U-shaped line has no ground under international law because [the] historical basis is very weak." She added, "I don't understand what China claims for in that U-shaped line. If they claim sovereignty over islands inside that line, the question is whether they are able to prove their sovereignty over these islands. If China claimed sovereignty over these islands 500 years ago and then did not exercise their sovereignty, their claim of sovereignty becomes very weak. For uninhabited islands, they can only claim territorial seas, not exclusive economic zones (EEZ) from the islands."

The U.S. views its role as essential for maintaining global stability and prosperity. U.S. strategic interests in the global commons include "Freedom of Navigation Operations" (FONOPs) that ensure international waters and airspace are available to all countries for freedom of navigation and trade. Since the end of World War II, the U.S. has been the global guarantor of security in the "global commons" to ensure that these areas remain open and accessible to all nations. In short, the global commons are the geography upon which ships sail, airplanes fly, and economies rely. In essence, the U.S. has acted as a global policeman in these spaces, ensuring that the global commons remain open and free for the benefit of all nations. As such, the U.S. Navy and Coast Guard work to safeguard critical sea lanes used for global commerce, protecting them from piracy, terrorism, and other threats, whereas the U.S. Air Force helps to maintain open skies, allowing for the free flow of air traffic and communication. Specifically, with regard to the SCS, the U.S. seeks to ensure that the SCS remains open to international trade and commerce, as trillions of dollars' worth of goods pass through its waters annually.

Countering China's influence and expansion is also a U.S. aim to prevent China from dominating the region and projecting power elsewhere. Globally, the U.S. counters threats to the global commons from hostile actors, such as China and Russia, who seek to restrict access or exert undue influence, and the SCS is no exception.

The U.S. also must protect its allies. The U.S. has treaty obligations to defend its allies in the SCS (Japan, the Philippines, and South Korea) and its key partner in the region, Taiwan. The U.S. views the South China Sea as a critical arena in the broader great power competition with China. The U.S. works with allies and partners to uphold the rules-based international order and ensure the security of the global commons. It strengthens its security partnerships with countries like the Philippines and Vietnam through military aid and joint exercises.

Overall, the U.S. seeks to maintain a free and open Indo-Pacific region where all countries can prosper and operate according to international law. From the FONOPs mentioned above to the UNCLOS rulings, the United States plays a critical role in maintaining economic access to and within the SCS.



**Australia:** The Australian government does not recognize the PRC's claims. Australia's national interests in the SCS are similar to those of the United States and include maintaining a free and open Indo-Pacific and countering China's influence. Australia is also concerned about China's growing assertiveness in the region and its attempts to revise the international order, which highlights the need to strengthen alliances and partnerships. Australia is actively working to strengthen these alliances with countries like the United States and Japan, as well as build partnerships with other countries in the region to counter China's influence and protect its significant economic interests in the region.

**Japan:** Similarly, Japan's national interests in the South China Sea include maintaining freedom of navigation and ensuring the security of sea lanes for global trade. Japan is also concerned about China's growing military assertiveness in the region and its claims to disputed territories.

## Forecast:

- China will execute its strategic triad of initiatives to entangle nations in economic, security, and cultural ties that will eventually subordinate their national interests to Chinese preferences.
- The PRC will continue to build on the mythology of its historical and legal claims to the SCS to control its resources and create client states that depend on China for their economic stability and assured security. Time is not a factor.
- China will continue to challenge the maritime and economic sovereignty of the nations along its Nine-Dash Line as a continuous intimidation campaign. Its gray zone activities will continue to press the boundaries of enforceable international law in search of red lines, which will result in unacceptable consequences for the opposing parties.
- At some point, the U.S., along with regional and global allies and partners, may be compelled to enforce freedom of navigation and sovereignty in the global commons against Chinese expansion and aggression. The speculation regarding the tripwire for U.S. combat actions against China has resulted in gallons of spilled ink and terabytes of online articles. Regardless, the security of global commons matters to all nations and cannot be controlled by a nefarious and coercive actor.

## Economic Considerations:

- The SCS is a major supply chain route for the free-market nations led by the U.S. and therefore of strategic importance from both national defense and economic perspectives. The technology sector has a risk concentration for next-generation microchips manufactured in Taiwan and South Korea that accounts for over 90% of all global production. A disruption of the supply chain in the SCS would have significant negative impacts on virtually all market sectors, including defense, which relies on microchips.
- Derisking of the advanced microchip manufacturing concentration risk through the U.S. "Chips and Science Act" begins with starting the process to "onshore" manufacturing. The act also includes "friend-shoring" in the Indo-Pacific region outside of Taiwan and South Korea. PRC's control of the SCS could limit supply chain access throughout the entire region and reduce the number of "friend-shoring" countries, limiting the derisking opportunity.
- The U.S. and free market nation countries have also increased production in the Indo-Pacific region for other consumer products to reduce their trade volumes with China. Control of the SCS by China would be detrimental to the long-term economic power of the free-market nations by potentially limiting their trade diversification strategy.

*This information is being provided for information purposes only and should not be construed as an offer to sell or a solicitation of an offer to buy any securities. Nothing in the material should be interpreted as investment, tax, legal, accounting, regulatory or other advice or as creating a fiduciary relationship. Product names, company names and logos mentioned herein are trademarks or registered trademarks of their respective owners.*

*Unless otherwise specifically stated, any views or opinions expressed herein are solely those of the author and/or the specific area from which it originates and may differ from the views or opinions expressed by other areas or employees of Bancroft Capital, LLC. The information described herein is taken from sources which are believed to be reliable, but the accuracy and completeness of such information is not guaranteed by us.*

*Bancroft Capital, LLC is a member of FINRA and SIPC.*