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Saving Subic

Strategic Infrastructure, Development Finance, and the Limits of U.S. Economic Statecraft

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Executive Summary

A top global shipyard in the Philippines went bankrupt in 2019. The shipyard was located in Subic Bay, which was historically the site of a major U.S. naval base and is today a key logistical and forward-operating hub for U.S. and allied naval forces in the Indo-Pacific. Offers from Beijing to take over the shipyard materialized swiftly, threatening to rob the United States and its allies of a critical maritime asset and grant China a foothold in a strategically vital location that sits within driving distance of a U.S. treaty ally's capital. The United States was caught unaware by the bankruptcy; Washington scrambled, largely failing to sustain an interagency intervention and ceding most of the responsibility for securing the shipyard to individual initiative within the private sector and allied governments. In this case, improvisation succeeded, and friends of the United States prevailed in acquiring the shipyard, but Washington's institutions must be more prepared and agile next time.

This report presents a definitive account of the Subic shipyard episode, illustrating how the U.S. government failed to use formal levers to compete with the People's Republic of China (PRC) and decisively intervene when a strategic infrastructure asset was at risk of falling into adversarial hands.

The United States too often finds itself on the back foot when reacting to Chinese investments that harm U.S. interests. At the same time, the United States has recently stepped up global efforts to counteract the spread of Chinese influence over critical assets overseas, particularly with regard to maritime facilities like ports. This report analyzes the Subic case study to draw lessons on what worked and what did not, and provides recommendations to strengthen the U.S. economic tool kit for safeguarding and developing strategic infrastructure abroad. Ultimately, the report aims to provide a roadmap for bolstering institutional effectiveness, increasing allied coordination, and better harnessing private capital to secure U.S. economic, development, and security interests.

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RECOMMENDATIONS

Moving forward, the U.S. priority should be to systematize both proactive and responsive strategic investment tools.

1. **Create a strategic asset tracking initiative and designate an infrastructure point person.** The United States needs an official in charge of identifying potential strategic assets abroad and coordinating strategic investments across domestic agencies, foreign governments, and the private sector.
2. **Establish official engagement mechanisms for U.S. private firms and asset managers.** A formal network of pre-vetted U.S. firms can be consulted and called upon to partner with the U.S. government on key infrastructure initiatives overseas.
3. **Operationalize the expanded authorities of the U.S. Development Finance Corporation (DFC).** With the recent boost to its project financing capacity, the DFC must move faster, take greater risks, and embrace blended finance structures to effectively secure key infrastructure.
4. **Supercharge the U.S. financing tool kit and harmonize interagency efforts.** Strengthening the capabilities of development, diplomatic, and military agencies will help subsidize target projects, de-risk strategic opportunities, and ease U.S. private sector mobilization, while harmonizing these efforts to maximize efficiency and impact.
5. **Create a more institutionalized approach with U.S. allies.** The emerging corridor model provides a replicable template and showcases the dual impact of leveraging the full suite of U.S. economic tradecraft alongside allied investments.
6. **Prove to allies that the United States is the preferred partner.** As an **alternative** to Chinese offers, the United States needs to offer a positive, forward-looking agenda that speaks to its partners' aspirations.

Introduction

The storied Subic Bay shipyard was once the home of a major U.S. naval base, and it has long been prized for its strategic position. Naturally fortified by surrounding mountains, the bay is roughly **the size of Singapore** and has waters deep enough for any vessel; as a result, the bay has long been a site of geopolitical importance. It opens onto the South China Sea and sits adjacent to one of the world's busiest shipping routes, as well as to increasingly tense territorial flashpoints like Taiwan and the Scarborough and Second Thomas Shoals. At its peak around 2015, the shipyard's order volume ranked it among the **top 10 shipbuilding hubs** in the world. Its location makes it a frontline hub for allied fleet maintenance and logistics, while its substantial industrial capacity underpins both regional modernization efforts and territorial defense in any future South China Sea (or nearby) conflict, making it a critical node for U.S. Indo-Pacific strategy.

In January 2019, the private owner of the Subic shipyard, Hanjin Heavy Industries and Construction Philippines—a subsidiary of a South Korean company—went bankrupt. Very few people, if any, in Washington would learn of this for some time. Beijing, however, noticed immediately and sought to co-opt the yard for its own usage.

While the United States was looking elsewhere, the PRC mobilized its private sector in the wake of Hanjin's bankruptcy, and Chinese offers for the asset manifested in Manila within weeks.

U.S. attention only arrived in the months after these Chinese offers, when allied governments sounded alarms in Washington, warning that the shipyard could slip under Beijing's influence. As the prospect of a Chinese acquisition grew, a fortuitous alignment of key players in the Trump administration and in the Philippines facilitated the last-minute intervention of Cerberus, a U.S.-based private equity firm, preventing the Subic shipyard from falling under adversarial control. Despite initial offers of support from U.S. government financing agencies and bureaucrats, Cerberus and the Philippines ultimately bore most of the burden of keeping the facility under allied management. Although the outcome averted a major strategic setback, the success of the Cerberus acquisition owed more to fortunate circumstances and individual initiative than to U.S. institutional readiness. The episode exposed a glaring deficiency in the United States' tool kit for securing strategic infrastructure abroad. Given the stakes, it should not fall to private companies and allies to safeguard critical assets without robust U.S. institutional backing.

The importance of the shipyard falling under friendly management has only become more apparent in the years since its bankruptcy. Following the 2022 acquisition by Cerberus, the shipyard has been filled with tenants spanning several strategic industries, all of which have increased the site's strategic value. As can be seen in satellite imagery from December 2025 (see Figure 1), the shipyard is now home to supplies for the U.S. Army; a forward-deployment center for the major American subsea cable company, SubCom; continued shipbuilding production by the South Korean company HD Hyundai; and a base of operations for the Philippine Navy. The acquisition has enabled increasing economic and security gains directly involving three allied powers. In the wake of this, there is an even larger naval revival of Subic Bay beyond the shipyard. Reimagining this imagery under Chinese ownership illustrates how damaging the loss of the shipyard would have been to regional security and defense planning.

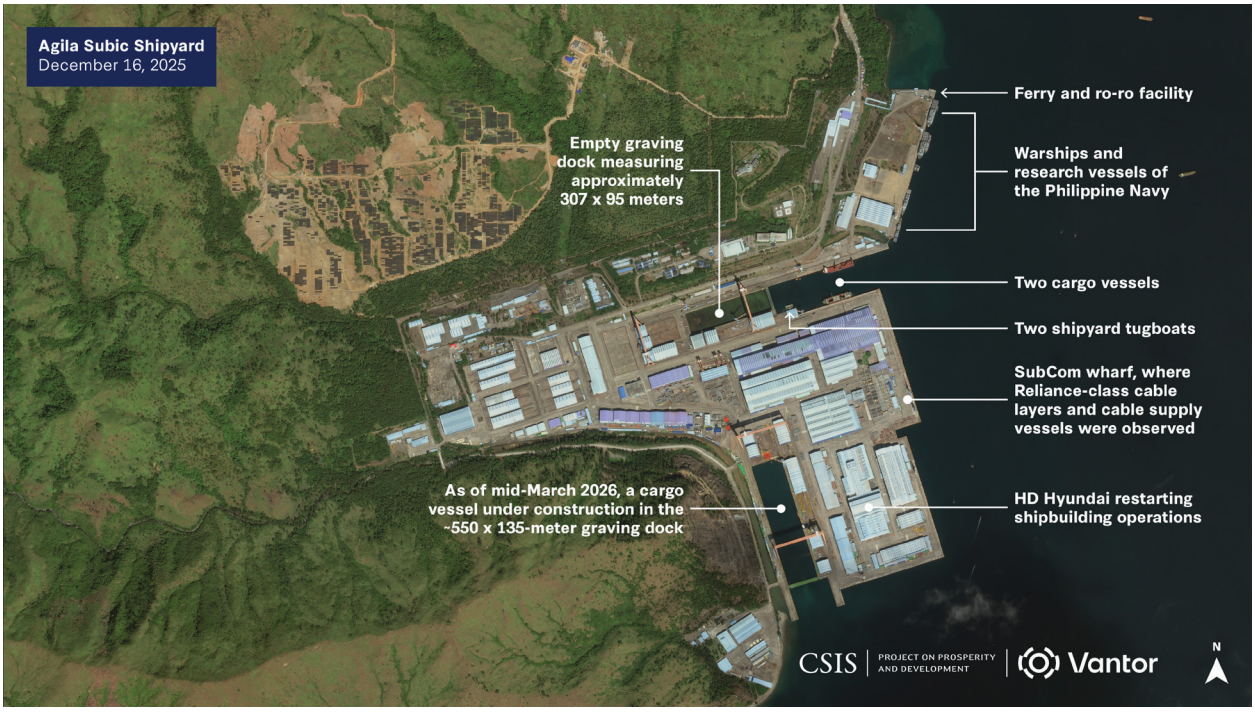
The Subic Bay episode thus warrants a careful after-action examination to pinpoint how formal levers of the U.S. government failed to compete with China and decisively intervene when a strategic infrastructure asset was at risk of falling into adversarial hands. This report provides a definitive account of the events and negotiations, from Hanjin's bankruptcy through the shipyard's eventual acquisition by Cerberus. To that end, CSIS conducted more than 35 interviews with decisionmakers directly involved in the process and experts with relevant insights in the Philippines, Japan, and Washington, D.C., supplementing the fragmented public record with a detailed reconstruction drawn from firsthand accounts. The result is a comprehensive chronicle of what transpired in Subic Bay, providing answers to the following questions:

1. Who raised the alarm about the Hanjin bankruptcy and potential expansion of China's influence?
2. What spurred action to thwart a Chinese takeover? What public-private coordination occurred? What incentives were used and what deals were made?
3. What role did regional allies play?

The interview findings point to a clear takeaway: To safeguard strategic interests abroad and avoid reliance on last-minute heroics and ad hoc solutions, Washington must build a forward-looking architecture for strategic infrastructure that integrates the roles of private capital and foreign partners. Lessons from this case study include how to coordinate private and public capital in conjunction

with allies; how to modernize development finance to better mobilize private investment; and how to design a system that tracks strategic assets abroad, establishes clear triggers for interagency action, and designates a lead authority to coordinate an interagency response and mobilize coalitions of aligned stakeholders to secure critical facilities overseas.

Figure 1: An American Acquisition Safeguarded Allied Interests and Unlocked Additional Strategic Benefits



In short, the Subic Bay shipyard case demonstrates how U.S. economic statecraft lacks the institutional mechanisms necessary to rapidly secure strategic industrial assets abroad. Key capabilities were absent, interagency coordination proved too burdensome to sustain, and constraints on relevant agencies were too rigid to permit decisive action. While a major strategic blow was eventually averted, this was done largely through ad hoc coordination among key individuals in the Philippine and U.S. governments and the private sector. The United States cannot rely on circumstantial actions and exceptional personal initiative to compensate for institutional deficiencies.

ROADMAP OF THE REPORT

This report proceeds in three parts:

1. The first part establishes the strategic and political context of the episode. This includes the geographic, security, and industrial significance of the Philippines, Subic Bay, and the shipyard for the United States and its allies; China's parallel efforts to gain a broader foothold in the Subic area; Beijing's systematic maritime infrastructure acquisition strategy and its relevance to the Subic case; and the turbulent state of U.S.-Philippine relations under President Rodrigo Duterte.

2. The second part provides a detailed narrative of the negotiations themselves, informed by firsthand accounts and covering Hanjin's January 2019 bankruptcy and early crisis management by Filipino officials; the identification of Cerberus as a prospective buyer and the limits of available U.S. government tools to support Cerberus; the collapse of DFC financing; the eventual Philippine Navy partnership that salvaged the deal and the subsequent effort to make the shipyard operational; the 2022 acquisition; and the return of shipbuilding to Subic in 2025.
3. The third part draws lessons from this episode, offering six policy recommendations for how the United States can build the institutional architecture—strategic asset tracking, proactive private sector engagement, development and strategic finance expansion, allied investment coordination, and partnership credibility—needed to respond more effectively when the next comparable situation arises.

SECTION 1

Strategic and Political Context: Why the Subic Bay Shipyard Episode Matters for the United States

The shipyard in Subic Bay sits at the intersection of long-standing U.S. security partnerships and the PRC's grand strategy, a single asset emblematic of today's geopolitical competition. The bay's historical strategic significance has been renewed and continues to grow in step with geopolitical tensions. The shipyard's outsized productivity in a key global industry, coupled with its proximity to contested waters, has made it a quintessential target for Chinese investments and influence. Keeping both the shipyard and the bay in friendly hands was essential, as the shipyard had become a lonely bulwark against China's dominance in the shipbuilding sector, and the wider bay had become an increasingly critical lynchpin for U.S. and allied logistics and operations in the region. Other attempted Chinese incursions into Subic Bay demonstrated Beijing's interest in gaining a foothold there, and the timing of the bankruptcy under a turbulent Philippine administration that was actively pursuing Chinese investments opened a real possibility that the shipyard, and therefore the bay, would fall under the sway of Beijing.

THE HISTORICAL AND TREATY RELEVANCE TO THE UNITED STATES

Following the Philippines' independence from the United States at the end of World War II, the two countries entered into a deep security partnership. The 1947 **Agreement Concerning Military Bases** secures continued U.S. access to Subic Bay and bases throughout the Philippines. The 1951 **U.S.-Philippines Mutual Defense Treaty**, the oldest U.S. security treaty in Asia, guarantees mutual aid against any hostile actions in the volatile region. The 1998 **visiting forces agreement** "provides for arms sales, intelligence exchanges, and discussions on military cooperation," as well as legal protections for U.S. military and Department of Defense civilian personnel to freely conduct official business in the Philippines. In 2014, the security partnership continued to expand with an **enhanced defense cooperation agreement** (EDCA), which provides U.S. forces rotational access, the ability to preposition equipment, and the option to build infrastructure throughout a network of Philippine military bases "for security cooperation exercises, joint and combined military training activities, and humanitarian assistance and disaster relief activities." Although Subic Bay is not itself an EDCA site, its deep-water port and ship repair facilities have long supported visiting vessels of the U.S. Navy and other allied forces. The 2017 **Mutual Logistics Support Agreement** facilitates the provision of reciprocal supplies and logistical support between the U.S. and Philippine militaries. The 2023 **Bilateral Defense**

Guidelines reaffirmed and bolstered the relevance of the 1951 treaty. Today, the Philippines remains a vital security partner, treaty ally, and staging ground for U.S. operations in the Indo-Pacific, with Subic Bay serving as a key nexus where much of this relationship is made manifest.

Figure 2: Subic Bay's Vital Proximity to the South China Sea and Taiwan Seals Its Importance to Indo-Pacific Strategy

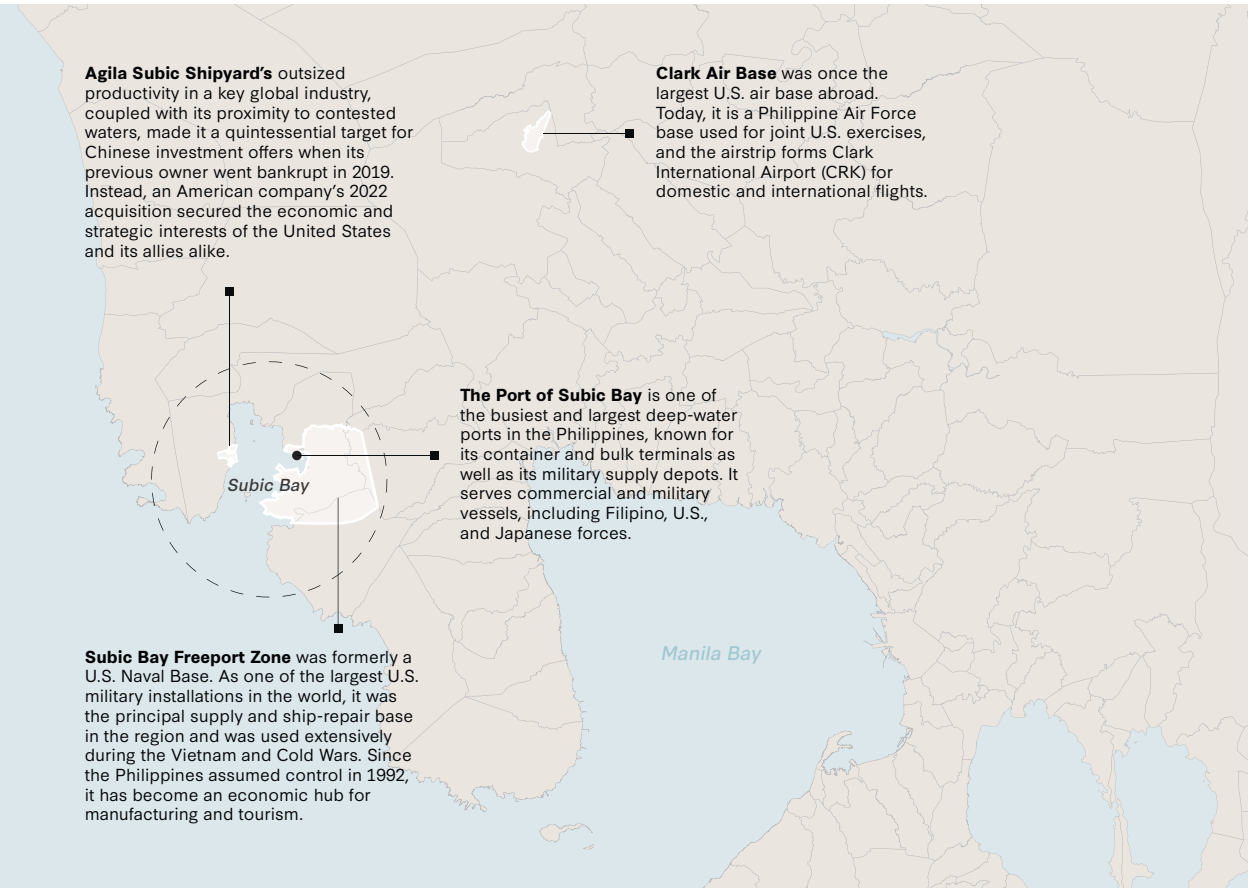
Source: CSIS.

THE STRATEGIC VALUE OF SUBIC BAY

Subic Bay is located in the Zambales province of the Philippines, only **125 miles** from the nearest Chinese-held shoal, approximately **700 miles** from Taiwan, and a 2.5-hour drive from Manila. Built up by the Spanish before the Philippine-American War, the bay was handed over to the U.S. Navy, which began operating it as a base by **1901**. For nearly 100 years, it was the site of the **largest naval station** in the Philippines, valued for its key location and fortified position. Briefly occupied by the Japanese

during World War II, Subic Bay went on to serve as the U.S. Navy's principal supply and ship-repair base in the region and was used extensively during the Vietnam War and the Cold War, emerging as one of the **largest** U.S. military installations abroad. In 1992, the U.S. Navy **withdrew** from Subic after failing to renegotiate the terms of its lease and relinquished control of the base to the Philippine Navy.

Figure 3: Subic's Unique Features and Location Bolster the Importance of the Shipyard and Wider Bay



Source: CSIS.

Philippine control of Subic Bay changed the nature of the base's activities, increasing its regional, economic, and strategic importance. In **1992**, the area became the Subic Bay Freeport Zone, administered by the Subic Bay Metropolitan Authority (SBMA). A Philippine government agency, SBMA was tasked with attracting commercial investors to create jobs and expand industry. The bay became a **freeport** home to manufacturing plants and tourist facilities, and it retained one of the largest and busiest deep-water ports in the Philippines, serving commercial and military vessels, including Japanese and U.S. forces. The port facilities at Subic Bay remain especially important to the United States, as they enable the delivery and storage of military equipment for bilateral exercises between U.S. and Filipino troops.

Insofar as Subic Bay could serve as a major U.S. and allied logistics hub and a strategically positioned forward staging point for maritime forces and equipment, it presented a threat to Beijing's interests in the region.

THE SIGNIFICANCE OF THE SHIPYARD AS AN ECONOMIC AND SECURITY ASSET

Over the past two decades, China has emerged as a dominant force in global shipbuilding. By 2023, the PRC accounted for **over half** of global merchant ship production by tonnage. South Korea and Japan trailed in second and third place, contributing approximately 28 percent and 15 percent of global output by tonnage, respectively. This rapid expansion by the PRC has given Beijing significant influence over the maritime industrial base that underpins global trade and naval power.

Against this backdrop, the Hanjin Heavy Industries and Construction Philippines (HHIC Phil), established by Hanjin Heavy Industries and Construction of South Korea, built a shipyard in Subic Bay in 2006, serving as a meaningful counterweight to Beijing's power. The **350-hectare** Hanjin yard was one of the largest and most capable shipbuilding facilities in Southeast Asia and quickly became a cornerstone of the Subic Bay Freeport Zone. At the peak of its operations, Hanjin's orderbook placed the company among the "**top 10 shipbuilders** in the world." Hanjin was the **biggest foreign investor** in the Freeport Zone and employed between **23,000** and **30,000** workers, many of whom were Filipino. Thanks to Hanjin's output, the Philippines emerged as a major shipbuilding nation, ranking among the world's **top five** largest shipbuilding countries since 2010 and placing fourth globally as of 2023.

> *The Subic yard offered a rare combination of scale, workforce, and geographic proximity to major sea lanes and operational theaters—assets that help the United States and its partners sustain naval presence and operational readiness across an increasingly contested region.*

Beyond its economic weight, the shipyard's contribution to allied maritime industrial capacity for the Indo-Pacific region was strategically vital. In the Indo-Pacific, allied maritime capacity depends heavily on regional facilities capable of providing ship repair, maintenance, and logistical support. The Subic yard offered a rare combination of scale, workforce, and geographic proximity to major sea lanes and operational theaters—assets that help the United States and its partners sustain naval presence and operational readiness across an increasingly contested region. Japan, in particular, has viewed strengthening the Philippines' maritime and naval capabilities as a way to counteract China's growing influence; facilities like the Hanjin Subic shipyard aided this effort by bolstering the Philippines' ability to support regional maritime security.

Altogether, the Subic Bay shipyard represented a highly productive asset that provided substantial leverage in a strategically sensitive sector and location. Positioned on the front line of geopolitically consequential disputes in the South China Sea—a shipping lane upon which much of the world's

economy depends—the facility's economic and strategic value made control over its future far more than a routine commercial matter.

THE PLAYBOOK BEHIND SUBIC: CHINA'S GLOBAL MARITIME INFRASTRUCTURE STRATEGY

Over the past two decades, the strategic value of the site for the United States and its allies has risen substantially as Beijing has **systematically expanded** its footprint in global maritime infrastructure as part of a broader strategy—including the Belt and Road Initiative and the Maritime Silk Road—to link commercial investment, logistics access, and geopolitical influence. Chinese state-owned enterprises and policy banks have **financed or invested** in maritime infrastructure projects across Asia, Europe, Africa, and the Americas, often securing equity stakes, operational leases, or long-term concessions at strategically located ports. Between 2000 and 2025, Chinese state lenders and government agencies **committed roughly** $23.9 billion in loans and grants for 363 port-related projects at 168 ports across 90 countries. By the mid-2020s, Chinese firms had invested in **well over 100** ports spanning every continent (**mostly** in the Global South), establishing a far-reaching commercial presence along many of the world's most important maritime trade routes.

Several high-profile cases illustrate how these investments can carry both strategic and commercial implications. China Merchants Port Holdings' 99-year lease of Sri Lanka's **Hambantota Port** followed Colombo's struggle to service its debt obligations; COSCO Shipping's **acquisition** of a controlling stake in Greece's Port of Piraeus transformed the facility into one of the Mediterranean's busiest shipping hubs; and China's development of **Gwadar Port** in Pakistan provides Beijing a direct outlet to the Indian Ocean through the China-Pakistan Economic Corridor. Analysts note that while most Chinese port investments operate primarily as commercial enterprises, Beijing's policy of **military-civil fusion**, which formally aims to eliminate barriers between the commercial and defense sectors, along with the close relationship between Chinese firms and the state, together raise the possibility that some facilities **could support** logistics, intelligence collection, or future naval access. Of the 17 ports where China holds a majority stake, analysts **assess** that 14 have the potential to serve naval purposes alongside their commercial functions—a pattern that China's first overseas military base in Djibouti, **established** in 2017 **at the entrance** to the Red Sea, has already demonstrated in practice.

The Indo-Pacific has been a **particular focus** of this strategy. The region is home to **10** of the world's busiest container ports, and Chinese firms have **concentrated** their maritime investments along the sea lanes and chokepoints **connecting** East Asia to the Indian Ocean and beyond. In Southeast Asia specifically, where U.S. and allied forces operate frequently and where China's territorial claims bring it into direct conflict with regional states, the strategic value of maritime infrastructure is especially acute. The United States, by contrast, **does not own or manage** a single commercial port outside its territories, leaving Washington with no comparable presence or institutional footing in the very region where the competition is most consequential. Against this backdrop, the bankruptcy of Hanjin's Subic shipyard—one of Southeast Asia's most productive maritime industrial facilities, situated alongside the contested waters of the South China Sea—presented precisely the kind of opening that Beijing's port acquisition strategy is designed to target and exploit. Seen in this broader context, Beijing's interest in Subic reflected not an isolated transaction but a continuation of a well-documented global pattern of strategic maritime investment.

LOCATION, LOCATION, LOCATION: SUBIC'S REGIONAL IMPORTANCE

Just west of the Philippines is the South China Sea, a critical global passageway and potential geopolitical flashpoint. Approximately **30 percent** of worldwide maritime trade passes through the sea, totaling **$3.4 trillion** in annual goods as of 2016, and including **$1.2 trillion** in value transiting into or out of the United States as of 2018.

The South China Sea is also a key highway for crude oil and natural resources. Almost **half** of all global oil and propane shipments traverse it. Most of the major Southeast and East Asian economies rely on oil from the Middle East, all of which routes through the sea. Japan and the Philippines are the most dependent, importing **over 90 percent** of their total crude oil from the Middle East, with South Korea **importing 70 percent**, China **50 percent**, and Taiwan deliberately reducing its reliance to **35.9 percent**. The vulnerability and importance of safe passage for these resources is currently on full display, as the conflict in Iran reverberates into the Indo-Pacific by strangling massive percentages of this oil through the **closure of the Strait of Hormuz**.

The Philippines itself is a key pillar of the **island chain strategy**, in which Japan, South Korea, Taiwan, the Philippines, and Indonesia form a first line of maritime containment around China. In this framework, the Philippines is a particularly strategic ally for U.S. security interests, given its forward location, which would be critical in the event of a Taiwan contingency.

More broadly, tensions between the Philippines and China in the South China Sea have intensified over the past 15 years over contested territories, disputed shoals, and artificial islands. Scarborough Shoal is a coral structure roughly **120 miles** off the west coast of the Philippines, with sovereignty claimed by China, the Philippines, and Taiwan. Manila administered it until China forcibly expelled the Filipinos in 2012.

The Second Thomas Shoal lies approximately **104 miles west** of the Philippines, within the Spratly Islands chain, which has sovereignty claims from China, the Philippines, Vietnam, Malaysia, and Taiwan. The Philippines intentionally grounded the warship BRP Sierra Madre there in 1999, and Manila treats the shoal "as a **military outpost**."

In 2016, international arbitration determined that because Second Thomas was within the Philippines' 200-nautical-mile exclusive economic zone, "the PRC has **no lawful** territorial or maritime claim." However, China has disregarded the ruling, often continuing to block Philippine access to both shoals.

Filipino officials often refer to the portions of the South China Sea waters within the Philippines' exclusive economic zone as the West Philippine Sea. At these shoals and throughout the West Philippine Sea, China aggressively blocks and assaults Philippine vessels, including **firing water cannons** on Filipino crews and **ramming** into Philippine Coast Guard ships just 60 miles from the Philippine coastline.

Beyond these incursions, China is undertaking the world's most ambitious **island-building effort** in the South China Sea. Artificial islands with the capacity to field aircraft, missiles, and defense systems could expand Chinese "power projection **by 620 miles**, enabling China to strike any of the other claimants [and] amplifying its military's capacity to intimidate its neighbors."

As tensions in the South China Sea rise, strategic maritime infrastructure in the Philippines becomes increasingly important. For that reason, the United States, Japan, and China have all vied for influence within Subic Bay.

BEIJING'S ENCROACHMENTS IN SUBIC BAY

The 2019 offers for the Hanjin shipyard are not China's only attempt to gain a foothold in the region surrounding the defunct U.S. naval base at Subic. In that same year, a Chinese company proposed to develop and operate the **two islands**, Grande and Chiquita, located at the mouth of Subic Bay. The Philippine Navy opposed the lease, arguing that it would hand China influence and surveillance over the passageway from Subic into the contested West Philippine Sea, enabling China to collect information on Philippine, U.S., and Japanese naval activities in and around the bay. The SBMA put the deal on hold indefinitely.

These suspicions were proven right in March 2025, when **five Chinese nationals**, one Cambodian, and two Filipinos were **arrested** in a raid on Grande Island, accused of using drones and disguising themselves as recreational fishermen to conduct surveillance on U.S. and Philippine military vessels and facilities in the area, and charged with espionage.

> *If the facility had fallen under the control of entities linked to China, it could have posed several risks: intelligence collection near U.S. and allied naval activity, influence over a key logistics hub, and strategic leverage in a region where U.S. and Philippine forces frequently operate.*

In 2016, the same Chinese state-owned enterprise involved in securing Chinese **influence** over the Hambantota International Port in Sri Lanka also proposed building a **major railway** linking Subic Bay and the former U.S. air base, now known as Clark International Airport. Negotiations dragged on for years, with no finalized loan agreement, until the Philippines withdrew from cooperation with China on the project. It has since been superseded by the larger **Subic-Clark-Manila-Batangas Railway**, a 250-kilometer freight line now being developed with U.S. and Japanese support as a key pillar of the Luzon Economic Corridor, with the U.S. Trade and Development Agency (USTDA) agreeing in June 2025 to provide technical assistance.

Taken together, these episodes reveal a consistent pattern: China has pursued multiple, overlapping avenues to establishing a presence in and around Subic Bay, through commercial investment, infrastructure financing, and intelligence collection. The Hanjin shipyard was among the most consequential of these opportunities, but it was neither the first nor the last. If the facility had fallen under the control of entities linked to China, it could have posed several risks: intelligence collection near U.S. and allied naval activity, influence over a key logistics hub, and strategic leverage in a region where U.S. and Philippine forces frequently operate.

U.S. RELATIONS COMPLICATED DURING THE DUTERTE ERA

Given the ever-rising security stakes for the United States, along with China's demonstrable interest in Subic Bay, the Duterte administration heightened anxieties that the shipyard could fall into Beijing's hands.

When the shipyard entered bankruptcy in January 2019, the bilateral relationship between the United States and the Philippines was at one of its lowest points in decades. It was strained by a Philippine president who had publicly declared his separation from Washington, courted Chinese investment, and repeatedly invoked the legacy of U.S. colonialism to deflect criticism of his government.

When Rodrigo Duterte became president of the Philippines in 2016, his aversion to a perceived neocolonial **attitude** from the United States manifested often. Famously, President Duterte's violent anti-narcotics crackdown drew international condemnation over fears of extrajudicial killings, including from U.S. President Barack Obama. In response to such rebukes, President Duterte **claimed** in October 2016 that he would end joint U.S. military exercises; he also considered **taking** defense equipment from Russia and China, and even **told** President Obama he could "go to hell." That same month, President Duterte visited China and **said in Beijing**, "I announce my separation from the United States, both in military but economics also. America has lost it."

Concurrently, Duterte was pivoting toward China in hopes of capitalizing on the Belt and Road Initiative's loans and investments to support his "**Build! Build! Build!**" agenda to improve Philippine infrastructure and accelerate the country's economic development. He downplayed Chinese aggression in the South China Sea to **secure better terms** and offers from Beijing.

U.S.-Philippine relations improved somewhat with the first Trump administration: The two leaders bonded over their **shared distaste for President Obama**, and the United States provided **military equipment** and assistance during the 2017 Marawi siege.

Then, following the cancellation of a Philippine senator's visa, President Duterte announced the **termination** of the visiting forces agreement with the United States in February 2020. However, by July 2021, he confirmed that the agreement would **remain** fully in place at the urging of the Biden administration, especially by Defense Secretary Lloyd Austin.

This backdrop spanned much of the negotiation period with Cerberus, from Hanjin's 2019 bankruptcy until the 2022 deal signing. It is critical to appreciate how this turbulent context informed the dynamics, framing, and decisionmaking throughout the negotiations surrounding the sale of the Subic Bay shipyard. The contentious political environment complicated U.S. government involvement in the deal, as Washington had to avoid the appearance of reviving a U.S. naval presence in the bay, the optics of which harkened back to previous periods of active troop deployments in the Philippines. To understand both the urgency and the constraints that defined the U.S. role in the negotiations, it is necessary to understand President Duterte's relationship with Washington at the time.

SECTION 2

Inside the Negotiations: The Subic Shipyard Crisis as a Stress Test of Economic Statecraft

The Hanjin bankruptcy in Subic Bay and subsequent negotiations over Cerberus's acquisition of the shipyard provide an illustrative case study of the shortcomings of U.S. economic statecraft in competition with China over strategic infrastructure. The narrative below reconstructs how these events unfolded, drawing on firsthand interviews with key individuals directly involved in the acquisition across the Philippine government, U.S. government, and private sector, as well as supplementary interviews with subject-matter experts, policy analysts, and relevant scholars. By establishing a definitive record, this report seeks to highlight how governments and private actors might coordinate a systematized response more effectively in the future. Wherever possible, information from these interviews was corroborated or supplemented through publicly available reporting, which is cited throughout this section.

Figure 4: A Summary of Pertinent Developments in Subic Bay and the Shipyard

1901–1992

The U.S. Navy base in Subic Bay was one of the largest U.S. military installations abroad, serving as a vital Pacific hub for ship repair, logistics, and supplies throughout World War II, the Vietnam War, and the Cold War.

1992

The U.S. Navy withdrew from Subic Bay and returned it to the Philippines. The area became the Subic Bay Freeport Zone, administered by the Subic Bay Metropolitan Authority.

2006

Hanjin Heavy Industries and Construction Philippines built the shipyard in Subic Bay, constructing 123 ships from 2007 through the start of 2019, and its order volume ranked among the top 10 shipbuilding facilities in the world during that time.

2016

Rodrigo Duterte became the president of the Philippines, actively pursued Chinese investment in the country, and strove to balance relations with Beijing and Washington.

A Chinese state-owned enterprise proposed building a major railway linking Subic Bay and the former U.S. air base, now known as Clark International Airport.

2019

A confluence of factors led Hanjin Heavy Industries and Construction Philippines to default on its debts, prompting a search for a new investor to keep the shipyard in Subic Bay operating. Chinese firms submitted offers to acquire the shipyard within weeks. Filipino officials warned the U.S. government, igniting a search in Washington for potential investors and a scramble to align interagency support.

A Chinese company proposed developing and operating the two islands, Grande and Chiquita, located at the mouth of Subic Bay. The deal was put on hold indefinitely following security concerns raised by the Philippine Navy.

2022

A U.S. private equity firm, Cerberus Capital Management, acquired the shipyard in Subic Bay after three years of separate negotiations with the U.S. and Philippine governments to make the deal commercially viable.

Japan unveiled a blueprint for infrastructure projects with the Subic Bay Regional Master Plan, helping to pre-empt future Chinese investments in Subic Bay.

2022–2025

Cerberus divided and diversified the shipyard into a multiuse facility spanning several sectors to ensure profitability, renaming the facility Agila Subic; tenants now include the Philippine Navy, which has established a base of operations; the U.S. Army, which has warehoused supplies through V2X; and SubCom, a U.S. subsea fiber-optic cable company, which has built a forward operating center for the Indo-Pacific region.

2025

Cerberus brought shipbuilding back to Subic Bay with the addition of HD Hyundai as an industrial tenant, which plans to build up to 10 ships a year through this facility.

Beyond the shipyard, Subic Bay is remilitarizing. The U.S. Marines signed a lease with the Philippines to store non-munitions equipment in a warehouse at Subic Bay. The U.S. Department of Defense, the U.S. State Department, and the DFC have been directed to assess the feasibility of building a potential weapons manufacturing hub in Subic Bay.

Five Chinese nationals, one Cambodian, and two Filipinos were arrested for espionage on Grande Island and accused of using drones and disguising themselves as recreational fishermen to conduct surveillance on U.S. and Philippine military vessels and facilities in the area.

The Trump administration committed continued support for the Luzon Economic Corridor, a U.S.-Japan-Philippine tripartite initiative connecting Subic, Clark, Manila, and Batangas via modern rails, highways, and port systems, which was originally announced in 2024 under the Biden administration.

Source: CSIS.

THE COLLAPSE OF HANJIN AND THE STRATEGIC VACUUM

At its height, the Hanjin shipyard was the **rising star** of the Subic Bay Freeport Zone. Hanjin was the zone's single largest investor, having funneled $2.3 billion since operations began in 2007, and its single biggest employer, with over 20,000 workers on its payroll. Hanjin's facility in Subic built nearly 130 ships from 2007 through the start of 2019, establishing itself as one of the most productive shipyards in the world.

Figure 5: The Shipyard Near the Peak of Its Operations Under Hanjin Highlights Its Strategic and Economic Value

Satellite imagery from January 2014 of the then-Hanjin Subic Shipyard illustrates the scale of Hanjin's operations at its height. The image shows 16 cargo vessels at various stages of construction and fitting out across the Subic Bay facility. Hanjin's graving docks, wharves, roll-on-roll-off (ro-ro) facility, and assembly areas are all visibly active, all indicators of a facility operating at peak capacity with production levels topping global output.

Yet a **confluence** of factors steadily piled up, eventually leading to its collapse: the financial deterioration of its South Korean parent company, over $1.3 billion in unpaid debt, the expiration of government incentives and power subsidies, and a cash shortfall exacerbated by both a severe downturn in global shipbuilding demand and the presence of "heavy-tail" contracts that delayed payments. These factors came to a head on January 8, 2019, when Hanjin declared the **largest** commercial bankruptcy in Philippine history.

The record default exposed five of the Philippines' largest banks, with loans amounting to over **$412 million**, including an estimated **$140 million** from Rizal Commercial Banking Corporation; $80 million from Land Bank of the Philippines; $72 million from Metropolitan Bank & Trust Company; $60 million from Philippine National Bank; and $60 million from Banco de Oro Universal Bank. Hanjin was also **indebted** to South Korean banks to the tune of **$900 million**.

The shipyard's bankruptcy promised significant economic and labor displacement, sending tremors through Philippine policymaking circles and triggering a cascade of actions by a small group of key players to minimize the fallout, including the Philippine secretary of finance, Carlos Garcia "Sonny" Dominguez III, who was simultaneously serving as a member of the Monetary Board of the Bangko Sentral ng Pilipinas (Central Bank of the Philippines). The Philippine government and creditors hoped for a "**white knight**" investor to rescue the shipyard and keep operations running.

Secretary Dominguez viewed Hanjin's jobs and assets as **more valuable** than its debts, understanding that their loss would send a serious shock through the Philippine economy. Secretary Dominguez also anticipated that a Chinese offer would materialize quickly, backed by substantial state financing that Beijing could mobilize at a speed no private competitor could match. Given the ongoing disputes with China in the West Philippine Sea, allowing a Chinese entity to seize a major maritime asset was unconscionable for domestic security interests, even with the Duterte administration's opening to China. Dominguez knew he had to move quickly and quietly—and he knew exactly who to call.

On the same day that the bankruptcy was announced, the secretary's first call was to the then-U.S. ambassador to the Philippines, Sung Kim. Recognizing that Washington would share Manila's security concerns, Dominguez emphasized that this moment presented an urgent, fleeting opportunity for the United States to act quickly to prevent a strategic asset from falling under Chinese ownership. Ambassador Kim, seemingly hearing of Hanjin's distress for the first time, received the message and moved quickly to warn Washington.

Notably, Kim's apparent initial lack of awareness of Hanjin's financial deterioration (and the related strategic implications) suggested a broader gap in the U.S. government's ability to track distressed infrastructure assets that could attract Chinese interest.

Shortly after calling Ambassador Kim, Secretary Dominguez placed a similar call to Japanese Ambassador Koji Haneda. With Washington and Tokyo alerted, he then turned to containing the situation at home.

Dominguez's first domestic move was to update the executive secretary of the Philippines, Salvador "Bingbong" Campo Medialdea, on the situation. Medialdea would play an indispensable role in managing negotiations between the Philippine administration, foreign governments, and the private sector as negotiations unfolded.

Next, Secretary Dominguez raised the issue with President Duterte himself, who was his childhood school peer. In this conversation, Secretary Dominguez explained the circumstances surrounding Hanjin's collapse and assured Duterte that the bankruptcy was primarily a financial and economic matter—one that he, as secretary of finance, was best positioned to handle. Mindful of Duterte's efforts to balance relations among the Philippines, China, and the United States amid contentious

circumstances, Secretary Dominguez framed the situation in economic terms and avoided overemphasizing its potential security implications. In doing so, he sought to prevent the matter from escalating into a geopolitical dispute. President Duterte granted Dominguez authority over the matter.

In one of his final moves, Secretary Dominguez briefed the leadership of the Philippine Congress on the unfolding situation and urged them to avoid politicizing the issue and thereby complicating efforts to secure an alternative to Chinese ownership. Then, through his membership on the Monetary Board of the Bangko Sentral ng Pilipinas, Dominguez persuaded the Philippine banks to form a quasi-consortium that would act as a single body under his unified direction to prevent any single lender from foreclosing on collateral before the others.

The shipyard bankruptcy had created a geopolitical opening. Security concerns among domestic and international stakeholders necessitated that the window be closed promptly before an adversary could enter. Through these steps, Secretary Dominguez successfully controlled the narrative in the Philippines and kept the sensitive handling of the issue under his aegis. Having sounded the alarm in Washington and Tokyo, he now waited for the two allies to respond.

ALARMS REACH WASHINGTON

Within a week of the bankruptcy, two groups of **Chinese investors**—one of which was a state-owned enterprise—approached the Office of the President in Manila and offered to pay substantial sums to both settle the debts owed to the banks and take over the shipyard. Secretary Medialdea quietly declined their offers.

Yet word of the Chinese overtures nevertheless reached Washington. Jose Manuel Romualdez, the Philippines' ambassador to the United States, became aware of at least one Chinese group offering substantial sums to settle with the banks and assume ownership of the facility.

Concerned about the strategic implications for Philippine-U.S. relations, Ambassador Romualdez alerted the U.S. National Security Council (NSC) and, in a White House meeting, explained that Chinese ownership of the facility would effectively grant the Chinese a major naval foothold in the Philippines, within driving distance of the capital. Given the tensions in the South China Sea, Ambassador Romualdez likened selling this asset to inviting a hostile combatant into one's home for a meal before going back outside to fight them.

Meanwhile, the situation began to attract public attention in the Philippines. On January 12, 2019, four days after the bankruptcy was announced, a local **newspaper** reported Beijing's interest in Hanjin's shipyard. That same day, a widely shared **Facebook post** by retired Vice Admiral Alexander Pama, a former chief of the Philippine Navy, warned of Chinese ownership: "Although it is a commercial shipyard, nothing can prevent the owners from making it into a de facto Naval base and a maritime facility for other security purposes!" While there was already widespread concern within the Philippine Navy about the strategic risks posed by the yard falling into the wrong hands, naval officers expressed little public outcry until Pama's post broke the silence and galvanized the Filipino public's opposition to Chinese ownership.

Some Filipino officials opposed to Chinese ownership floated alternative options, including offering the facility to European investors or to another Southeast Asian financing or operating partner. There was

even early discussion of a government takeover if no viable offers besides the Chinese one materialized. Indeed, Philippine Defense Secretary Delfin Lorenzana **supported** a naval takeover of the facility to safeguard both security interests and Filipino jobs.

Direct government-to-government interactions extended little beyond Manila's early communications with Ambassador Kim and Ambassador Romualdez's outreach in Washington. As negotiations progressed, Secretary Dominguez assumed a more referee-like role, striving to keep the acquisition primarily a private sector transaction between the banks and Cerberus. Ambassador Romualdez likewise championed this intentional commercial framing, believing it would make the deal more politically acceptable to President Duterte, who would have likely balked at any arrangement that appeared to explicitly expand the U.S.-Philippine security alliance while he publicly maintained a policy of balancing relations between Beijing and Washington.

At this point, the pressure was on in Manila and Washington to find a buyer as quickly as possible.

FINDING A PRIVATE PARTNER

With these warnings from abroad, U.S. officials were now attentive and eager to act, but they quickly faced bureaucratic obstacles.

There were few to no formal policy levers at their disposal that would enable them to directly intervene to safeguard the shipyard or compete with the scale of Chinese bids. Instead, officials determined that the most viable path forward would be to look outside the government for a powerful private sector partner interested in overseas infrastructure to intervene and absorb the distressed shipyard.

That realization exposed yet another institutional gap. The U.S. government had no formal mechanism for identifying or engaging large, trusted private sector partners capable of responding to strategic infrastructure opportunities abroad. There was no system in place to track potential investors or to formally alert them when assets of geopolitical significance became available. Instead, various officials had to rely on their own personal networks, making extemporaneous phone calls to whoever they thought might be well suited and gauging their interest in the project. It was through this informal, ad hoc process that a U.S. private equity firm, Cerberus Capital Management, was first contacted about the Hanjin facility.

Around February 2019, roughly a month after the bankruptcy, Alexander Benard, then senior managing director at Cerberus, was contacted by two members of the Trump administration: one from the NSC, alerted by Ambassador Romualdez, and one from the State Department, alerted by an embassy cable from Manila. The two asked whether Cerberus might be willing to step in to keep the asset in trusted hands.

At roughly the same time, the Office of the U.S. Secretary of the Navy contacted another Cerberus representative and indicated that if a trusted firm were to secure the shipyard, the U.S. Navy could very likely route repair and maintenance operations to the site—potentially adding $100 million worth of work each year.

Benard immediately informed Stephen Feinberg, the cofounder and CEO of Cerberus, who simultaneously was serving as chairman of President Trump's Intelligence Advisory Board at the

time. Feinberg had a deep appreciation for geopolitical sensitivities and a long record of investments to safeguard U.S. strategic interests. He was well aware of Chinese maritime expansion and quickly concluded that securing the Subic shipyard would be a strategic imperative for the country. Moreover, as the head of a private equity firm, he saw that the shipyard was a distressed industrial asset with significant redevelopment potential and long-term commercial prospects.

Feinberg's background situated him and Cerberus—perhaps uniquely—to have the financial incentives, strategic appreciation, and capabilities necessary to intervene. Still, acquiring and reviving the yard would be a substantial undertaking. When Benard approached other firms to help bear the load, all declined to become overtly involved, wary of potentially being perceived as geopolitical actors—though some offered behind-the-scenes support.

It should be noted that while private capital incentives can sometimes align with strategic interests, as the two did in this case, reliance on ad hoc private investment is not a reliable substitute for institutional economic statecraft and cannot always be replicated. Even in this case, many firms could not align their financial incentives and business strategies with this project, leaving policymakers with few options.

In this particular crisis, however, Cerberus's interest offered Manila and Washington what they had been hoping for: a commercially viable path to preventing the shipyard's acquisition by strategic competitors, for which they could potentially offer support.

Within 36 hours of speaking with Feinberg, Benard was on a plane to Manila.

U.S. INVESTMENT TOOLS AND THEIR LIMITS

Benard traveled with a rapid response interagency team, including officials from the U.S. Department of Defense, the DFC, the USTDA, and the U.S. State Department. Other private sector representatives were invited, but only Cerberus joined the delegation to Manila. Together, the group toured the shipyard, met with relevant Philippine banks, and held discussions at the local U.S. embassy to assess the situation's various geopolitical and economic dynamics.

For a private sector actor like Cerberus, the U.S. government's rapid response team was a laudable idea—but in practice, the group dissolved quickly after its visit and never evolved into a sustained working body capable of coordinating a comprehensive response.

Moreover, around October 2020, U.S. Ambassador Sung Kim—who was well respected among Filipinos as an effective and sympathetic senior diplomat who understood the strategic gravity on the ground—was reassigned to Indonesia, leaving a leadership vacuum when it came to coordinating the interagency cooperation through the U.S. embassy in Manila.

With the rapid response team disbanded, a Trump cabinet official designated the State Department as the lead coordinator on the U.S. government side and specifically tasked Brian Bulatao, then under secretary of state for management, to maintain consistent communication with Cerberus and serve as the interagency coordinator.

Meanwhile, Cerberus worked to assemble the commercial structure needed to make an acquisition viable. The firm sought an industrial partner to assume the shipbuilding and ship repair operations,

and also hoped to internationalize the deal to minimize the semblance of a U.S. takeover of the facility. Benard traveled to Australia and Japan, hoping to form an international coalition of investors.

While Japan was unable to put an investor forward, the U.S. embassy in Australia connected Cerberus with the Australian government, which in turn introduced Cerberus to **Austal**, an Australian-based global shipbuilding company and Australia's largest defense exporter. Austal already operated a shipbuilding facility in Cebu, Philippines, providing familiarity with the Philippine market; **Austal USA** was also already a shipbuilder for the U.S. Navy.

The two companies **discussed** a joint investment in the Hanjin shipyard. Austal would operate both of the facility's dry docks for shipbuilding and repair/maintenance, while the rest of the shipyard outside Austal's remit would be repurposed for logistics.

Back in Washington, Cerberus negotiated with the U.S. government on the commitments and forms of support needed to financially justify the deal to its investment committee.

The United States discussed several strands of support:

1. a loan from the DFC to provide financing to offset Cerberus equity;
2. repair and maintenance contracts from the U.S. Navy, consistent with earlier estimates discussed with the Office of the Secretary of the Navy; and
3. a long-term (10-year) logistics contract from the U.S. Army at the shipyard.

In the end, only the U.S. Army's commitment materialized. With Under Secretary Bulatao's interagency intercession and insistence, Cerberus negotiated a pre-contract, conditional agreement under which the U.S. Army, through the defense contractor Vectrus (now called V2X), pledged to rent a set amount of space at a set price. The terms would take effect the moment Cerberus completed its purchase of the Hanjin shipyard, but the agreement would be void if the purchase remained incomplete within 12 months. This armed Cerberus with a fully valid, binding contract that promised a revenue stream the company could share with potential funders and that would help it begin building a business model.

By contrast, the U.S. Navy provided Cerberus with a nonbinding letter of intent indicating that the Navy would likely contract a certain level of maintenance work from the facility for its vessels once the smaller dry dock met U.S. Navy standards. In a word, the U.S. Navy said "maybe." The difficulty was circular: The Navy could not contractually commit to using the shipyard until it possessed the requisite capabilities, while Cerberus could not justify the substantial capital investments required to renovate the facility to the U.S. Navy's standards without firm customer commitments. The letter of intent included layered conditionalities, probabilistic language, and vague pledges of ambiguous amounts of potential revenue that were of little use to Cerberus's redevelopment efforts. As a result, the U.S. Navy's tentative assurances could not be incorporated into Cerberus's business plan or used to attract additional financing, and the Navy's prospective support effectively fell away from the deal structure. The episode illustrated a broader challenge in U.S. economic statecraft: Even when officials recognized the strategic importance of an asset, institutional constraints often limited their ability to translate that recognition into concrete economic commitments. Echoes of this problem persist today. As of this writing, the U.S. Navy has not conducted any maintenance at the shipyard.

AN ABANDONED COURTSHIP WITH DEVELOPMENT FINANCE

The transformation of the Overseas Private Investment Corporation into the DFC under the 2018 BUILD Act was intended to give Washington a stronger tool for financing strategic infrastructure projects abroad. The new agency combined the Overseas Private Investment Corporation's existing authorities with expanded lending capacity and new equity investment powers, positioning it as a more capable development finance institution aligned with U.S. geopolitical interests.

When Cerberus first engaged with the DFC following Hanjin's bankruptcy, however, the agency was still in the midst of its transition. The reorganization would not be fully completed until December 2019, roughly 12 months after the Subic crisis began. Although the Trump administration—including the highest-level cabinet officials—had given a clear top-down directive to prioritize preventing the shipyard from falling into Chinese hands, the DFC was still defining how to deploy its newly expanded tool kit.

During initial conversations over the course of 2020, the project appeared promising to the DFC: The strategic rationale was clear, and the economic development benefits of reopening the shipyard were substantial. Cerberus was viewed as a credible financial sponsor with reputable partners, and the early deal structure appeared viable. Cerberus proposed acquiring the shipyard, with Austal operating the facility; potential operations included delivering vessels to the Philippine Navy and operating the dry dock designated for potential U.S. Navy repair and maintenance. Export Finance Australia (EFA), the Australian government's export credit agency, also entered discussions about providing financing alongside the DFC. Eventually, the Vectrus warehousing lease generated an additional revenue stream. At the same time, the Philippine Navy emerged as an additional potential tenant at the site and expressed interest in a long-term lease. Everything appeared to be coalescing into a bankable structure that was on track for DFC support.

However, negotiations then stumbled as elements of the business plan fell away or changed. Austal ultimately determined that the economics of operating the facilities were not viable because the U.S. Navy's commitment and the Philippine Navy's demand for new vessels were neither firm nor clear enough; together, these factors led Austal to **withdraw** from the deal altogether. The Vectrus warehouse agreement, upon closer examination, did not, on its own, meet the DFC's underwriting standards because it was based on a U.S. Army contract that contained a termination-for-convenience clause, allowing it to be canceled if future funding was not appropriated. The DFC therefore concluded that the contract alone could not be treated as a bankable revenue stream. From Cerberus's perspective, this reasoning was difficult to reconcile with Washington's broader push to support the project. The DFC assessed the same problem with a potential Philippine Navy lease, the funding for which would rely on annually appropriated government budgets that could not provide long-term revenue guarantees.

In the wake of all the turmoil from this series of departures, as well as changes in U.S. administrations that brought new priorities, Cerberus and the DFC found themselves at a crossroads. What followed was a sequential unraveling that exposed a structural mismatch between the priorities and requirements of a government development finance institution and those of a private equity investor. Cerberus viewed the acquisition as a long-term investment that could take 5 to 10 years to fully develop into a profitable enterprise, requiring rapid, evolving dealmaking with potential partners in the immediate term. The DFC, by contrast, required a clearly defined business model with predictable cash flows

before approving financing. Historically, the agency had supported both greenfield and brownfield infrastructure projects with established and typically contracted revenue streams. In this case, the pre-agreed revenue streams from Vectrus and the Philippine Navy that Cerberus could point to simply were not considered sufficiently "bankable" by the DFC.

Cerberus assessed that the DFC was more risk averse and required a higher level of credit than private banks would demand, while also moving at a pace far slower than banks would. The DFC, meanwhile, was reluctant to proceed with its processes until all components of the deal structure were close to cemented—an approach poorly suited to a complex transaction evolving in real time. The DFC assessed that there was no longer a sufficiently robust business model to meet its underwriting requirements.

Although DFC officials recognized that the project could potentially succeed as a long-term private equity investment and that the strategic alignment remained clear, it became exceedingly difficult to run it through a credit and approval process without a clear, sufficient revenue model.

DFC officers later acknowledged that the same project, if evaluated today, would have been better suited to the agency's products and deepened focus on strategic investments under its 2026 reauthorization. But at the time of the negotiations, its capabilities were still nascent, and it lacked the personnel needed to deploy those capabilities effectively.

With the loss of Austal as an operational partner and of the DFC and EFA as funding partners, Cerberus had to fill the funding gap itself and look elsewhere to make the acquisition viable.

INSTITUTIONAL GAPS FORCE EXTEMPORIZATION AND ALLIED GOVERNMENT SUPPORT

With the exception of the conditional agreement from the U.S. Army, the U.S. development finance and strategic investment system ultimately was not designed to support the deal.

As Cerberus sought a new industrial partner to replace Austal and strengthen the revenue stream needed to justify its investment, the possible lease arrangement with the Philippine Navy took on added significance. Much work remained to formalize the potential lease commitment and identify a funding source for it.

An idea took shape when Secretary Dominguez recalled long-standing concerns raised by Philippine Secretary of Defense Lorenzana regarding the limitations of the naval facilities at Sangley Point, where vessels were often hampered by nearby fishing activity. The Philippine Navy lacked a proper base and even had to moor several vessels off commercial docks in Manila with minimal to no security. Secretary Dominguez recognized that the Hanjin shipyard could address this gap: There was an opportunity in the Cerberus deal for the Philippine Navy to lease part of the facility as its own exclusive shipyard and docking bay. He approached Lorenzana with a proposal: The Philippine Navy could gain a more robust base of operations if it would be willing to pay rent to Cerberus.

The proposed arrangement faced initial resistance. The Philippine Navy preferred the construction of a fully government-owned naval base, one that was not contingent on paying rent to a private company in exchange for a portion of its commercial facility. Secretary Dominguez countered that the government lacked the funds and the time to build a new base, whereas leasing part of the Subic facility offered an immediate solution.

The Philippine Navy deeply understood the strategic value of Subic Bay for its current needs and for the future development of military capabilities, given that there was no existing naval facility capable of docking recently acquired frigates and that forthcoming submarines and larger vessels would depend on access to such a facility. Despite its early reservations, the Navy recognized that national security priorities outranked commercial considerations in the acquisition process.

As the navy chiefs heard it, Chinese bidders were prepared to pay *double* or more the debt owed by Hanjin to the banks, whereas Cerberus offered only to settle Hanjin's outstanding liabilities—on the steep condition that the Philippine Navy commit to paying a hefty annual rent. From a purely financial standpoint, the Chinese offer appeared more attractive, making the Duterte administration's support for the Cerberus deal far from obvious. By backing the Cerberus deal despite the financial burden, senior officials signaled that concerns about a potential PRC acquisition outweighed the financial advantages of the competing offer. This stance encouraged the Navy to seek broader government support to offset the lease's costs. The Philippine Navy insisted that in order for it to consent, any agreement had to guarantee that lease payments to Cerberus would not come at the expense of the already limited Philippine Navy budget.

Eventually, Secretary Dominguez and Vivencio "Vince" Bringas Dizon, the president and CEO of the Philippine Bases Conversion and Development Authority, confirmed that the funds would come from elsewhere in the government rather than from the Philippine Navy's allocation. Defense Secretary Lorenzana supported the arrangement, recognizing both Cerberus's financial needs and the strategic advantages of gaining a secure location in which to dock naval vessels, especially for larger ships recently acquired from South Korea. With the promise of a special government appropriation separate from the Philippine Navy's budget, Secretary Lorenzana secured the Philippine Navy's consent. Dizon finalized the details with Cerberus and the Philippine Navy and coordinated all required signatures to formalize the deal.

The agreement was solidified not a moment too soon. The Cerberus investment committee had grown increasingly skeptical of the project after years of uncertainty. But with the Philippine Navy as a major tenant and source of revenue, and with Feinberg encouraging Benard to complete the deal due to its importance for U.S. national security, Cerberus could finally move forward with the acquisition.

> *The episode underscores the value of developing more formalized frameworks for allied cooperation in safeguarding strategic investments and infrastructure—especially when U.S. economic statecraft tools prove insufficient on their own.*

Senior officials from the Philippine government traveled to Washington and New York twice during 2021 and 2022 for backchannel negotiations to finalize the arrangement. In one of the final meetings at Cerberus's New York headquarters, Finance Secretary Dominguez, Ambassador Romualdez, and Defense Secretary Lorenzana met with Cerberus executives—including Senior Managing Director Benard, CEO Feinberg, and Chairman Dan Quayle.

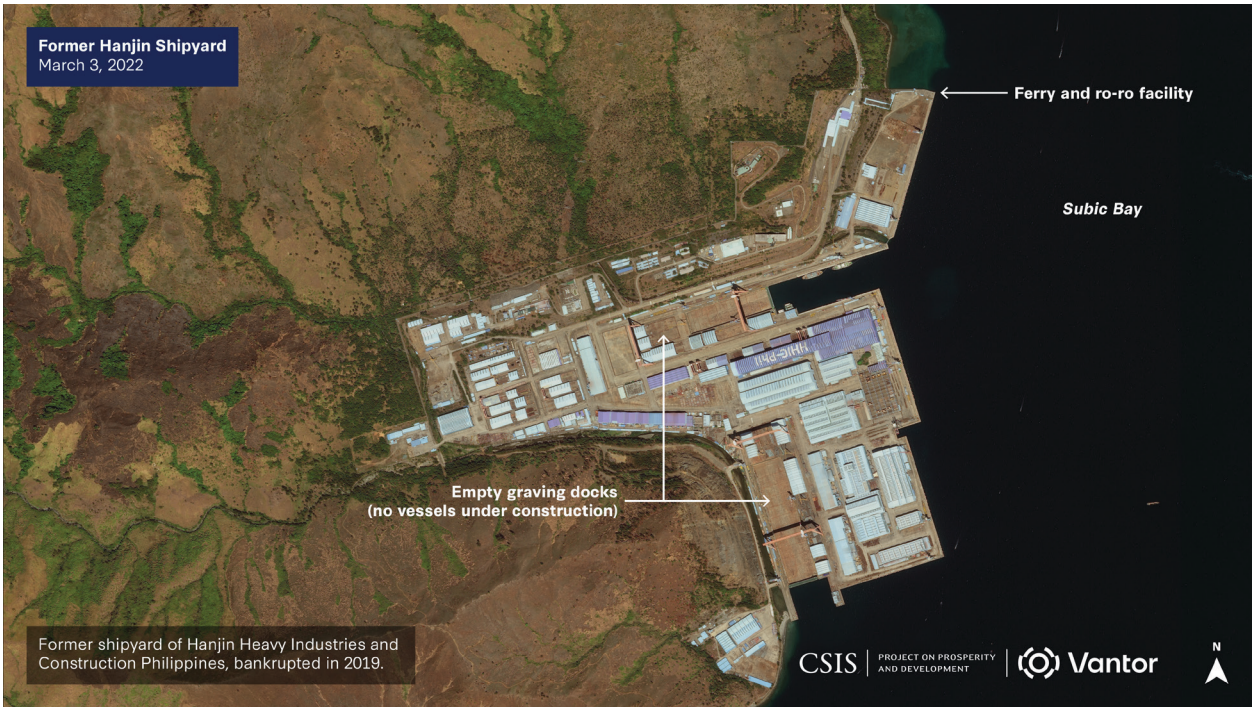
By April 2022, after three years of deliberation, coordination, and negotiation, the $300 million acquisition by Cerberus was **publicly confirmed and finalized**.

Notably, while none of the anticipated streams of U.S. government support other than the U.S. Army warehousing ultimately materialized, Cerberus was able to make the deal work with direct support from an allied government. The episode underscores the value of developing more formalized frameworks for allied cooperation in safeguarding strategic investments and infrastructure—especially when U.S. economic statecraft tools prove insufficient on their own.

CERBERUS FILLS IN THE BLANKS

Cerberus had secured the shipyard, but it now faced the challenge of making it operational. By the time Cerberus assumed control in 2022, the facility had become largely **dilapidated**, having been abandoned for several years after Hanjin vacated it in 2019. Such a huge facility incurred massive fixed costs, and Hanjin had left a legacy of **investigations** into alleged mismanagement, corruption, and labor issues at the shipyard. Moreover, Hanjin's bankruptcy was partly due to a prolonged downturn in the global shipbuilding market.

Figure 6: The Bankrupted, Mothballed Facility at the Time of the Cerberus Acquisition



Satellite imagery from March 2022 captures the state of the former Hanjin shipyard around the time Cerberus assumed control. Compared to the earlier 2014 image at the height of Hanjin's operations, the differences are stark, with empty graving docks and a lack of activity throughout the facility.

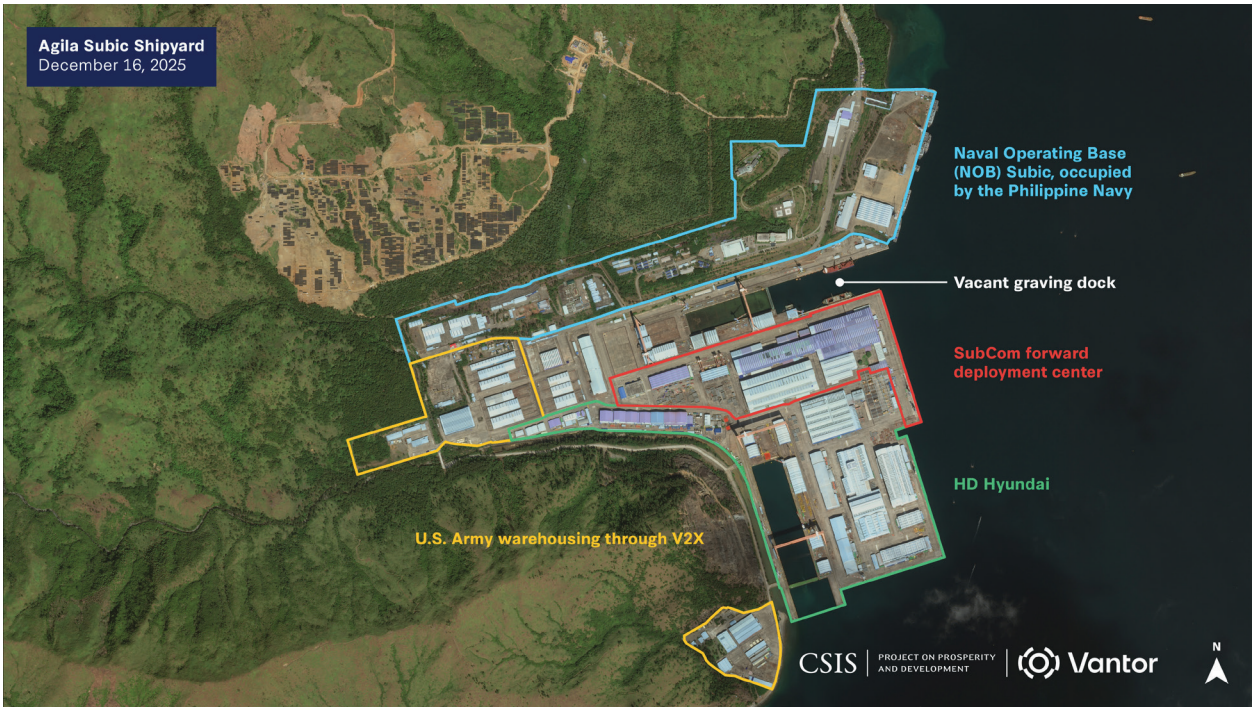
Whereas Hanjin devoted the entire site to the singular purpose of shipbuilding and repair, Cerberus realized early on that it would need to divide and diversify the property into a multiuse facility crossing several sectors to ensure profitability. The company had successfully secured the Philippine Navy as a tenant in the northern yard, with what is now called Naval Operating Base Subic, covering roughly 100 hectares and housing the Philippine Navy's capital ships. The U.S. Army contractually agreed to warehouse supplies through V2X, which keeps equipment in stock for disaster relief and humanitarian aid to be used during Balikatan and Salaknib, the two largest annual joint military exercises between the United States and the Philippines. Cerberus also moved SubCom, a U.S. subsea fiber optic cable company in its portfolio, to the shipyard, positioning Subic as a logistics hub and forward deployment base **to more efficiently support** its customers, fleet of cable ships, and operations in the region. Cerberus designated its own Agila Subic Compass as the new operator of the entire facility, and the shipyard has since been renamed Agila Subic.

However, while diversifying the facility may have addressed the negative features of Hanjin's legacy, there was still the problem of its positive features: Hanjin provided Filipinos with over 20,000 jobs at its peak and launched the Philippines into global shipbuilding prestige. Moreover, at the announcement of the Cerberus acquisition in 2022, then-Foreign Affairs Secretary **Teodoro Locsin Jr.** said the acquisition was "the biggest public-private partnership in the 75-year history of Philippine-U.S. relations." It involved one of the most strategically prized areas in the region and covered a key national industry. The Philippines had declined substantial sums of money from China and instead accepted the Cerberus offer. The stakes and expectations for Cerberus were therefore enormous. And yet, Cerberus was purely an investment firm with no shipbuilding capabilities itself. Austal's withdrawal removed the industrial partner that would have assumed that responsibility. Consequently, a subset of Filipinos was distressed that the diversification and lack of any tenant with shipbuilding capacity made a return to Hanjin's employment numbers unlikely.

While filling in the rest of the shipyard with tenants, Cerberus had continued attempting to secure an industrial tenant to operate the dry docks since Austal backed out. U.S. companies and France's Naval Group declined, but Japanese and South Korean companies were intrigued. HD Hyundai, a South Korean conglomerate, emerged as the most interested party. Hyundai negotiated whether to use both the larger dry dock for shipbuilding and the smaller dry dock for maintenance, repair, and overhaul. Finally, Hyundai signed a deal to run some 100 hectares in the southern portion of the shipyard for 10 years.

In September 2025, HD Hyundai Heavy Industries and HD Korea Shipbuilding & Offshore Engineering—the holding company for the offshore engineering and shipbuilding division of HD Hyundai—held a **ceremony** to formally commence shipbuilding activity and celebrate the official return of the industry to Subic since Hanjin's bankruptcy six years earlier. The president of the Philippines, Ferdinand Marcos Jr., was joined by both the U.S. and South Korean ambassadors, as well as representatives from Cerberus. And with that, the shipyard's industrial operations resumed amid a newly diversified, multi-use facility. Satellite imagery from December 2025 shows the results of this strategy.

Figure 7: The Facility as a Home for Tenants Spanning Strategic Industries, U.S Military Supplies, and Allied Naval Forces



ALLIED ECONOMIC STATECRAFT: JAPAN'S PARALLEL STRATEGY OF PROACTIVE INVESTMENT

Although the Japanese did not directly participate in the Subic shipyard project, they still played an outsized complementary role in preventing Chinese influence from spreading throughout the rest of Subic Bay.

This case provides a lesson in contrasts: Where the United States largely failed to reactively mobilize an interagency response to an imminent crisis and found itself overdependent on the generosity of foreign partners, Japan was able to build on long-term, proactive development financing and strategic planning coordinated across multiple agencies that stretched back many years. Indeed, for years preceding this crisis, Japanese efforts aimed to shape the broader economic and infrastructure development of Subic Bay and the Philippines more generally. Japan has been the largest donor of official development assistance (ODA) to the Philippines for decades, contributing **a third** of the Philippines' total ODA portfolio in 2024.

The Japan International Cooperation Agency (JICA) has been especially active on maritime capacity assistance, substantially contributing to the Philippine Coast Guard. In the past 10 years, Japan delivered 10 44-meter Parola-class multirole response **vessels** under a JICA concessionary loan; JICA also supported the Philippine acquisition of **two 97-meter** multirole response vessels and is financing an additional **five 97-meter patrol vessels** under a low-interest ODA loan to expand the Coast Guard's capacity.

> *This case provides a lesson in contrasts: Where the United States largely failed to reactively mobilize an interagency response to an imminent crisis and found itself overdependent on the generosity of foreign partners, Japan was able to build on long-term, proactive development financing and strategic planning coordinated across multiple agencies that stretched back many years.*

Outside the Philippine Coast Guard, JICA established drug rehabilitation **programs** beginning in 2017, which coincided with President Duterte's **war on drugs**. The United States, by contrast, publicly rebuked President Duterte on the issue.

The Japan Bank for International Cooperation (JBIC) was also used as a tool by the Japanese government to support major infrastructure projects around Subic Bay that had a double effect of securing strategic and development outcomes. A JBIC ODA loan in the mid-2000s funded the **94-km Subic-Clark-Tarlac Expressway**, which was completed in 2008 and links Subic's seaport to Clark Airport. This has bolstered Subic's connectivity, transportation, and logistical efficiency, enabling more business and project opportunities.

Juxtaposed against the U.S. model of post-crisis reactive improvisation, failed interagency mobilization, and overreliance on the generosity of foreign partners, the Japanese provide a model to emulate: years-long proactive investment coordinated across multiple agencies to secure strategic infrastructure abroad.

For the Subic crisis in particular, after the Hanjin bankruptcy in January 2019, representatives from the Office of the Prime Minister of Japan met with Secretary Dominguez to discuss the shipyard. A few months later, the Philippines and Japan signed a **memorandum of cooperation** to **develop Subic Bay** and its surrounding areas. The plan was already announced to the public by **early January 2020**, just one year after Hanjin's collapse.

Tokyo had tapped JICA to develop what would become the **Subic Bay Regional Master Plan**, a blueprint finalized in 2022. The plan aimed to unlock Subic's full economic potential, outlining 34 projects—including ports, airports, roads, and industrial hubs—to expand Subic's capacity and improve connectivity to **other major cities and industrial areas**, especially Central Luzon (namely Clark Airport) and Metro Manila. Secretary Dominguez eagerly **received** the plan, which aligned neatly with President Duterte's economic platform of "**Build, Build, Build**." In the years since, infrastructure projects originally mapped out in the JICA plan have begun to move forward, such as **seaport and airport projects** presented by the Subic Bay Metropolitan Authority.

Jonathan Berkshire Miller, a former senior fellow at the Japan Institute of International Affairs, **observed** in 2020 that "Japan's plans for Subic align with its free and open Indo-Pacific vision and match with its desire to enhance littoral states' maritime domain awareness and capabilities."

These early investments and the JICA master plan laid the foundation for today's Luzon Economic Corridor, a **U.S.-Japan-Philippine tripartite initiative** connecting Subic, Clark, Manila, and Batangas via modern rails, highways, and port systems. At a **White House trilateral summit** in April 2024, the three countries formally agreed to prioritize this corridor under the G7's Partnership for Global Infrastructure and Investment, signaling a joint commitment to mobilizing capital for Subic-related infrastructure. In July 2025, U.S. Secretary of State Marco Rubio **confirmed** that the Trump administration would continue to support the corridor.

The eventual thwarting of Chinese footholds in Subic Bay reflects complementary but largely uncoordinated efforts by the United States, Japan, and the Philippines. While a private investor ultimately secured the shipyard, Japanese infrastructure planning helped shape the future development of the broader bay area, limiting opportunities for Chinese expansion throughout the entirety of the Philippines. The Japanese model demonstrates that a proactive, coordinated government approach to strategic investments can preempt future crises like the Subic incident. Moreover, the episode illustrates the value of coordinating infrastructure efforts across allied governments to leverage their relative strengths.

THE UNITED STATES AND ALLIES CAPITALIZE ON THE STRATEGIC BOONS OF THE ACQUISITION

The Cerberus acquisition has continued to prove its immense strategic utility in the years since the deal was made. The commercial victory in Subic Bay has unlocked strategic gains that would have been impossible under Chinese ownership of the shipyard.

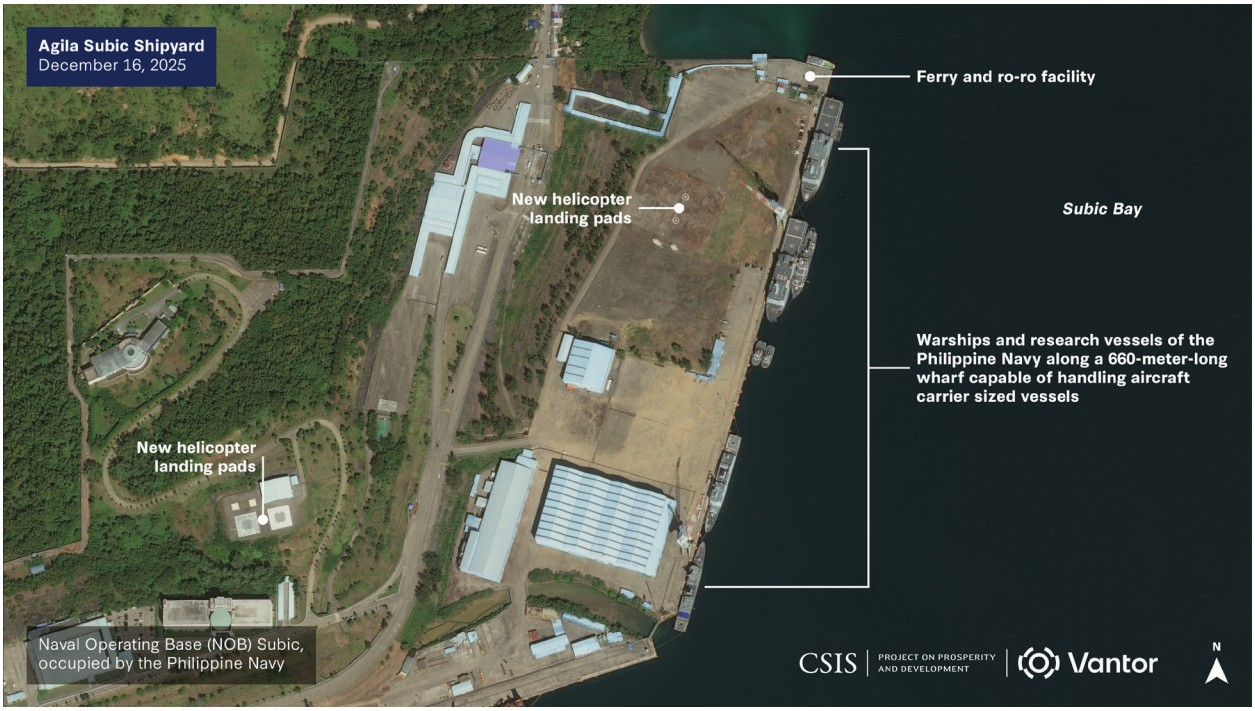
In 2025, the U.S. Marines signed a lease with the Philippines to store non-munitions equipment in a 57,000-square-foot warehouse at Subic Bay under a **new prepositioning plan**. In addition, the Department of Defense, the State Department, and the DFC have been directed to assess the **feasibility** of building a potential weapons manufacturing hub in the bay.

Around that same time, both Philippine Secretary of National Defense Gilbert Teodoro and Japanese Defense Minister Gen Nakatani endorsed the "**one theater**" concept, a framework that views the East China and South China Seas as a single, integrated operational zone for wartime planning requiring intelligence sharing, joint domain awareness, and synergy across militaries. Tokyo can breathe easier knowing that China was kept out of Subic and that the Philippines retained a key asset for boosting regional maritime readiness.

Displayed by the December 2025 satellite image above, the shipyard has proven to be a foundational stone in regional defense planning, as the Philippine Navy has indeed militarized a portion of the facility to host its current and future vessels, further bolstering its strategic value and proving correct the anxieties over potential Chinese ownership that could have likewise militarized the facility to their ends, or at least denied its use and diminish the entirety of Subic as a hub for the U.S. and allied forces.

By returning shipbuilding to Subic Bay, HD Hyundai seeks to position its operations at the Agila shipyard and, more generally, the Philippines as a **catalytic node** for advancing President Trump's **Make American Shipbuilding Great Again** initiative, as detailed in the February 2026 **Maritime Action Plan.** Following investments and modernizations within the next few years, Hyundai aims to build up to 10 ships a year through this facility.

Figure 8: The Shipyard as a Base for Regional Naval Operations



While public remarks since Hyundai's signing have focused primarily on commercial vessels in its Subic shipyard, the company is eyeing the production of **combatant vessels** and warships for regional clients like the Philippines, a line of work it already pursued **before arriving** in Subic.

To the benefit of Filipinos and the local economy, Hyundai also plans to hire **7,000 employees** upon full operationalization, and it signed an MOU with the Technical Education and Skills Development Authority to foster and harness the Filipino labor force as of March 2026.

WINNING DESPITE SHORTCOMINGS: LESSONS LEARNED

As Secretary Dominguez characterized it, the outcome in Subic Bay was a "**win-win**" for all parties involved.

Cerberus now owns a profitable, revamped, strategically vital shipyard in Subic Bay. The Filipino banks **received profits** from their written-off loans to Hanjin. The Philippine Navy received a more suitable facility for its vessels in the West Philippine Sea. The U.S. Army acquired a warehouse in a key location, and Vectrus won the contract to manage the storage. The Subic Bay Metropolitan Authority replaced the money-bleeding Hanjin with a new owner. Local Filipinos now have jobs and economic growth with the facility's revival. The Philippines successfully arranged an alternate partner and prevented a Chinese takeover. Washington and Tokyo collectively sighed in relief.

While victory was snatched from the jaws of catastrophe, it does not belong to the systems, levers, and agencies in the U.S. economic tool kit, but to the key individuals in the U.S. government, the Duterte administration, and the private sector who stepped in to compensate in the wake of institutional

failures. Although it worked out in this instance, the response time was not competitive with Beijing's speed; it took Cerberus three years to acquire the shipyard, then three more to fill it with tenants.

The Subic shipyard crisis demonstrates a multitude of shortcomings in U.S. economic tradecraft, especially in the context of geopolitical competition with China, a country that wields pervasive control over its private sector to direct key investments and secure strategic infrastructure.

To briefly recap the first-cut lessons from the firsthand accounts of those involved in the dealmaking:

- There was no mechanism tracking strategic infrastructure abroad. Local embassy teams should not be caught off guard when major assets in critical regions are put up for sale.
- The United States had no direct policy for intervening immediately in a crisis to secure assets from adversarial control. Japan was able to deploy its own JICA much more pointedly and effectively.
- There was no database of trusted private sector vendors, nor was there a system for contacting potential companies about strategic opportunities to partner with the U.S. government. Officials had to rely on personal networks to rush an emergency response.
- The United States was entirely dependent on the private sector to step in and save the day, ultimately with little support from the government.
- The interagency rapid response team was exceptional in concept but dissolved in practice.
- There was a need for a strategic infrastructure point person. This person should have sufficient authority to effectively mobilize interagency action, as Under Secretary Bulatao did impromptu.
- Pre-contract, conditional agreements equipped the private sector to build a business model and secure additional financing to deliver projects.
- Development finance tools were structurally incompatible with the needs of a rapid-response strategic investment due to evolving commercial dealmaking.
- Allied governments provided direct support where the U.S. government could not; rather than being coincidental, this can be better pursued intentionally.
- Allied governments proactively invested in key regions and developed sectors to preempt the expansion of Chinese influence rather than reactively managing a crisis of imminent expansion.
- Strategic interests drove decisionmaking, and commercial benefits were pursued thereafter. The Philippine government proved it could put national interests first, then worked diligently to make the project economics work on the back end.
- Despite the Cerberus offer being financially disadvantageous to the Philippines relative to the Chinese offer, the Duterte administration insisted on making it work. The United States needs to ensure that its allies continue to view it as the preferred partner, or it cannot reasonably expect countries to choose it over more financially lucrative options.

SECTION 3

Policy Recommendations

The Subic Bay case highlights key findings and lessons that may prove valuable for the United States in future strategic infrastructure deals. Moving forward, the U.S. priority should be to systematize both proactive and responsive strategic investment tools, rather than relying on exceptional circumstances or individual initiative. The analysis suggests the following policy recommendations:

1. **Create a strategic asset tracking initiative and designate an infrastructure point person.**

   A key reflection from the Subic Bay acquisition is the need for a high-profile point person to champion and coordinate geostrategic investments across the government and with the private sector. Seated at the highest levels of influence, with the authority and mandate to cut through bureaucratic hurdles and with access across the NSC, the White House, relevant government agencies, and the private sector, this individual would have the convening power to fast-track investments to preempt geopolitical competitors. A whole-of-government manager might typically manifest as a senior director at the NSC, but given related positions at the Pentagon and State Department, it may just be a matter of elevating and designating one key preexisting role as the chief of strategic investments and giving that role the power to pull all the institutional levers in unison.

   An institutional coordinator for strategic infrastructure must be empowered by the White House with unique access and cross-government authority to aggressively identify and pursue priority projects. Requirements should be in place to limit personal conflicts of interest. All this would ensure the individual has the credibility to liaise with private sector leaders, foreign governments, and relevant interagency partners, expediting decisions on strategic investments.

   Private partners would benefit from a convening body and a head who could coordinate actions among all relevant offices. For example, Cerberus had to run issues through the U.S. embassy in Manila, negotiate with the DFC for financing, secure commitments from the U.S. Navy and Army, engage the NSC, and coordinate with the State Department. A single point of contact would help commercial entities navigate the complex U.S. bureaucracy; moreover, this sprawling interagency web would benefit from information sharing and collective awareness of other agencies' needs and projects.

   Under this designee, the United States should establish a dedicated office or interagency working group to create a Strategic Investments Dashboard that **monitors** potential strategic assets around the world and ranks them by priority. This would result in a real-time dashboard of shipyards, ports, industrial facilities, critical mineral mines, emerging technology companies, and other infrastructure that may come up for sale or fall into financial distress. The prioritization component would be key to preventing the system from being flooded with project requests, especially as the U.S. foreign assistance portfolio diminishes.

   The bankruptcy of Hanjin Subic blindsided U.S. observers, underscoring the need for a forward-looking mechanism to bridge the gap between traditionally siloed actors. A proactive tracking mechanism would allow the United States to continuously analyze and anticipate where adversarial investors might move next, providing advanced warning to marshal resources and relationships across the government and private sectors.

Foreign service officers in embassies must be trained to **analyze** industrial assets as potential U.S. security risks. Foreign service officers should go out, identify key infrastructure with strategic implications, monitor the ownership of these assets, and elevate potential issues to wider attention. Their field logs and cables could help inform the tracking dashboard.

To avoid duplication and build on strong ongoing momentum, the office of this point person should incorporate the work and findings of the relevant interagency and centralize analysis with the pertinent agencies, serving as a hub for communication among them.

These are precisely the sort of institutional fixes that could have turned Subic from an ad hoc scramble into a managed campaign. In Subic, the United States was lucky; going forward, it must be ready.

2. **Establish official engagement mechanisms for U.S. private firms and asset managers.**

The U.S. private sector should not be engaged only in the midst of a crisis.

Washington, perhaps through the office of the above designee, should cultivate a formal network of pre-vetted U.S. investors and corporations with the industry expertise and capital to be reliable partners for sensitive investments when Washington needs help securing a strategic asset. Clear criteria should be established for inclusion, such as limits on a firm's Chinese portfolio and ownership or affiliation with Chinese entities, to prevent potential compromises.

Within these pre-approved firms, the United States government must improve its information-sharing practices, enabling private entities to begin conceptualizing business models and clearly understand the stakes, risks, and potential geopolitical value of the assets in question.

Mechanisms should be developed for regular consultation, the formation of coinvestment frameworks, and the formation of strategic industry partnerships. In particular, there should be a mechanism to alert trusted vendors to new opportunities to partner with the U.S. government on strategic infrastructure.

When a flagged strategic asset is coming to market, officials could quickly convene this network to gauge interest and seamlessly support the financing needed to make the investment commercially viable. This support could include financing from the DFC, USTDA, or the Export-Import Bank of the United States (EXIM); expedited regulatory approvals; and/or conditional revenue streams, as seen in the case of the Subic Bay shipyard.

Particularly in scenarios that demand rapid-response investments to safeguard security interests, the U.S. Army's conditional contract with Cerberus could serve as a template. It afforded the Army the comfort of mind that the agreement would be voided if services were not rendered, and it granted Cerberus a binding customer commitment, enabling it to proceed with the now de-risked acquisition confidently. This could be a valuable tool for incentivizing private investment, especially in projects with uncertain revenue streams but high strategic value.

3. **Operationalize the DFC's expanded authorities.**

The December 2025 **reauthorization** of the DFC has expanded its authorities and powers, positioning it to play a larger role in supporting strategic infrastructure abroad. The DFC more

than tripled its investment cap from $60 billion to $205 billion, enhancing its capacity for higher-risk projects, enabling greater equity investments, and expanding its geographic reach into higher-income countries for strategic sectors.

However, the Subic case, with the DFC's fresh transition from the Overseas Private Investment Corporation, demonstrates that institutional reforms must be accompanied by operational changes. The Cerberus acquisition represented the exact transaction the freshly reauthorized DFC is designed to support: a commercially viable investment with clear strategic implications and development impacts in a lower-middle-income country. Yet the difficulties encountered in structuring a partnership during the crisis highlight the challenges the agency has faced in fulfilling that role.

The DFC is a tool uniquely positioned to counter Chinese economic tradecraft. As a market-based alternative to China's state-driven model, its deals have higher transparency, emphasize debt sustainability, advance labor and environmental considerations, and ensure developmental impacts that benefit local economies.

The DFC needs to evaluate and approve projects on timelines more competitive with Chinese offers and compatible with commercial deals, both of which often arise quickly, and the latter of which sometimes requires accelerated due diligence and involves a revolving door of partners. Moreover, strategic infrastructure opportunities often emerge as distressed assets or complex restructurings, much like the Subic shipyard. The DFC was unable to support the Cerberus acquisition due to rushed timelines, partners coming and going, and the complexities of underwriting a distressed asset without DFC-approved bankable revenue streams.

Armed with its new capabilities, the DFC should build internal expertise to handle large, complex industrial transactions, such as distressed manufacturing facilities, and develop rapid-response investment procedures to mobilize quickly when such opportunities emerge in the future.

The DFC is a tool uniquely positioned to counter Chinese economic tradecraft. As a market-based alternative to China's state-driven model, its deals have higher transparency, emphasize debt sustainability, advance labor and environmental considerations, and ensure developmental impacts that benefit local economies. Rather than replacing markets with government money as Beijing might, it reduces risks to unleash otherwise hesitant private investment in self-sufficient, commercially viable projects—an approach that precludes the "**debt crisis trap**" of the PRC's coercive financing instruments. Moreover, since private enterprise, not governments, ultimately leads the projects merely enabled by DFC tools, thereby diminishing lasting economic and political leverage, sovereignty concerns in partner countries can be minimized, which is an especially attractive offer for Southeast Asian and wider Global South countries.

Now armed with a significant boost to its project financing capacity, the DFC has the opportunity to step up to meet the needs of the moment and establish itself as a flagship mechanism in the U.S. economic tool kit. But to do so, it must be able to move faster, take on greater risks, and embrace blended finance structures to more effectively secure strategic infrastructure abroad.

4. Supercharge the U.S. financing tool kit and harmonize interagency efforts.

The United States should continue strengthening the strategic investment capabilities of development, diplomatic, and military agencies alike to help subsidize target projects, de-risk strategic opportunities, and ease U.S. private sector mobilization. Those efforts should be harmonized to maximize efficiency and impact. Below are just a handful of the interagency bodies that could add value to reinvigorated efforts to secure and develop strategic infrastructure abroad.

Development Finance Agencies: USTDA, MCC, and EXIM

The U.S. Trade and Development Agency specializes in project preparation, including funding feasibility studies, providing technical assistance, and implementing pilot programs in emerging markets to make infrastructure projects viable, bankable, and attractive to investors. The USTDA is a highly efficient tool, with every **$1 programmed by the USTDA creating ~$111 in U.S. exports**. The agency has enjoyed **broad bipartisan support**, with **observers** documenting its high return on investment and often overlooked strategic mandate. The agency serves as a first mover to kick-start infrastructure engagements at the preparation stage, teeing up projects for financing and implementation by other U.S. government agencies such as the DFC or by U.S. private equity firms.

Despite its potential for catalyzing economic growth in developing country contexts, the USTDA remains dramatically under-resourced compared to other U.S. development financing tool kits, **with an enacted FY 25 budget of $87 million**. The USTDA needs significant increases in funding, staff, and authority to scale up and meet development and strategic demands.

The USTDA is vital for catalyzing private sector involvement and for teeing up strategic projects for DFC financing to build out its pipeline. Supercharging the USTDA to complement the DFC's thrice-expanded budget will create a stronger, more proactive U.S. development tool kit.

Coupled with other financing instruments like the **Millennium Challenge Corporation** (MCC), which offers large **grants** for economic growth and poverty alleviation to countries aligned with U.S. values on a timebound and performance-tracking basis, and **EXIM**, which provides insurance, guarantees, and loans to help bring in private investors, the United States has a strong existing tool kit to leverage more intentionally for security-sensitive infrastructure projects.

The State Department

The Office of the U.S. Special Coordinator for the Partnership for Global Infrastructure and Investment (PGI), housed within the State Department, leads a G7 and private sector **initiative** to invest in high-quality, resilient infrastructure in emerging markets. The PGI team strategically identifies priority projects, such as securing the supply chains of important assets like critical minerals, establishing reliable technology networks, and building **transportation**

infrastructure like ports and railroads. PGI leverages public funds from the United States and foreign governments to de-risk and unlock private investment. It is working with the European Union and the United Kingdom to assemble $600 billion in infrastructure investments worldwide by 2027 from partners ranging from the multilateral system, sovereign wealth funds, and development finance institutions. PGI's **flagship** projects revolve around the Lobito and Luzon Economic Corridors in Africa and the Philippines, respectively. If successful, the PGI approach could serve as an early template for identifying high-value sites or supply chain vulnerabilities that require proactive investments and crowd in private and public finance, including the tools discussed here, to do so.

The Pentagon

Originally established with limited capacity and a loan authority under $1 billion in 2022, the Pentagon's **Office of Strategic Capital** (OSC) was empowered much more heavily in 2025 to manage up to **$200 billion** in loan authority over four years. With a relatively loose **mandate** to support commercial businesses spanning critical and dual-use technologies, it is unclear how much the OSC might be used in overseas assets such as ports and shipyards. Still, the OSC opens a new tool kit of options for the Pentagon that could help drive capital investments and safeguard strategic infrastructure.

The rapid response team sent to Subic Bay demonstrated that a robust interagency task force could be assembled quickly. Today, the interagency's capacity is expanded, its collective capabilities are bolstered, and its strategic mandate has renewed emphasis. Now, a mechanism should be formalized to better sustain interagency collaboration in supporting strategic investments and developing strategic infrastructure abroad.

5. **Create a more institutionalized approach with U.S. allies.**

The **Luzon Economic Corridor** (LEC), announced in 2024, is a promising example of a U.S., Japanese, and Philippine trilateral partnership jointly mobilizing investments from across the gamut of development finance institutions, including the U.S. DFC, USTDA, EXIM, the PGI team, JBIC, and JICA. The initiative will develop key economic and logistics infrastructure, including ports and rails, to enhance connectivity across key regional nodes: Subic Bay, Clark Airport, and Manila. The LEC demonstrates how multilateral collaboration can be an avenue to contest China in infrastructure development.

During the Hanjin bankruptcy, these agencies existed but operated independently because they lacked a framework for working together, and the United States struggled to deploy its own tools in unison. The LEC, meanwhile, offers an opportunity to address the shortcomings of Subic and demonstrate how development finance and allied investment can support strategic infrastructure outcomes. Through the LEC, the United States can learn to institutionalize coordination across development financing agencies, integrate allied initiatives, and systematize plans for strategic infrastructure abroad. Whereas allied actions in Subic Bay—like Japan's investment foresight, JICA's Master Plan, EFA's tentative financing support, and the Philippine Navy's leasing from Cerberus—happened only coincidentally with U.S. efforts, the LEC is paving the way for allied frameworks on strategic investments that formalize cooperation among foreign agencies and those of the United States.

It may be difficult for agencies from different governments to align on the criteria and requirements for collaborating on the same projects, yet the Subic Bay story has demonstrated the success not of coinvesting but of parallel efforts: Filipinos, Japanese, Koreans, and Americans operating strategically in the same environment without forcing divergent models to work together on a single opportunity.

Particularly in sectors like shipbuilding, where over half of the **total gross tonnage** of commercial ships each year is built in China, and critical minerals, where China controls the **vast majority** of their processing, refining, and production, there is an outsized demand and a strategic mandate to crowd in and coordinate allied efforts where no single country can compete against China's dominance.

If successful, the emerging corridor model could provide a replicable template and showcase the dual impact of leveraging the fullness of U.S. economic tradecraft alongside allied investments.

6. **Prove the United States is the preferred partner.**

Southeast Asian nations, like many in the Global South, are proud of their sovereignty and expect to be treated as equal partners, not as pawns or proxies in great power competition. Over the course of the Duterte and Marcos Jr. administrations, the Philippines has at times pursued ties with both the United States and China. Countries neighboring China often do not want to be forced to antagonize it needlessly by courting favor from actors thousands of miles away in Washington.

The United States must maintain a reliable offer of genuine, advantageous partnership to its friends and potential friends in the Global South so that independent choice tilts toward Washington.

The simplest way the United States can demonstrate reliability to its partners is by attending key international forums and convenings. The U.S. president and key officials should personally attend ASEAN and East Asia Summits, rather than sending lower-level designees. President Trump's attendance at the 2025 ASEAN Summit in Malaysia was a strong signal of the United States' stake in the region. The Philippines is hosting the 2026 ASEAN Summit, and President Trump's participation would bolster ties with the Marcos administration. People make time for those they care about.

> *The United States must maintain a reliable offer of genuine, advantageous partnership to its friends and potential friends in the Global South so that independent choice tilts toward Washington.*

Moreover, Washington must recognize that its defense priorities will often only gain traction if partners see tangible economic benefits from the bilateral relationship. For U.S. allies in Southeast Asia and the rest of the Global South, economic security is national security. As Philippine Ambassador Romualdez **articulated**, "If we don't have economic security, we can

have all these defense agreements, and it would mean nothing." Long-term popular support for U.S. collaboration hinges on tangible economic deliverables such as job creation, infrastructure, and business opportunities. This is why it is important for agencies like the DFC, despite their expanded strategic mandate, to also keep an eye on development impacts for local populations.

To paraphrase CSIS Senior Adviser Daniel F. Runde, as an alternative to Chinese offers, the United States **needs to put forward** a positive, forward-looking agenda that speaks to the aspirations of its partners.

Allied relationships were critical forces in shaping the Subic Bay story. President Duterte threatened to break relations with the United States whenever Philippine autonomy appeared to be pressed upon. His opening to China at the time of the bankruptcy meant there was a real fear that the shipyard—and, by extension, the bay itself—could fall under the sway of Beijing. At the same time, there were those in Duterte's administration who found the United States a far preferable partner, felt insulted by Chinese incursions in the West Philippine Sea, and moved mountains to ensure Chinese offers for the shipyard failed to stick.

While the hope is for the United States to develop institutional levers to avoid reliance on personal initiatives, the value of being a preferred partner cannot be overstated.

Conclusion: From Improvisation to a Systemic Approach

The United States has established a track record of reacting only after China has already moved on strategic infrastructure abroad. Ports in **Australia**, **Pakistan**, **Djibouti**, **Greece**, **Sri Lanka**, **Peru**, and **Panama** have fallen under Chinese influence; often, this has only elicited varying levels of diplomatic responses and the voicing of security concerns after control of these ports was already lost to unfriendly hands. Many of these facilities were financially distressed, as Hanjin's was, but the United States lacked the formal mechanisms to intervene and the providential constellation of key players and allied governments to improvise solutions. China, meanwhile, systematically targets these assets, especially dual-use facilities, logistics nodes, and strategic maritime infrastructure, as part of its years-long investment strategies. At the same time, China has cemented its dominance of the global shipbuilding industry, while the Philippines continues to gain military relevance in U.S. regional planning.

Despite knowing all of this, and despite Subic's key position for the United States and its allies in the Indo-Pacific, the bay's world-leading shipbuilding capacity nearly slipped through the cracks into the hands of Beijing. The shipyard acquisition in Subic Bay thus serves as a useful template for analyzing the structural gaps in U.S. economic tradecraft. The system failed. Ultimately, the stars aligned in favor of U.S. interests, but change is required to ensure that Washington has the institutional effectiveness and capacity to either proactively invest in strategic assets abroad or to more quickly and successfully mobilize its interagency tool kit in response to potential adversarial incursions into critical facilities.

The board is set and the moment is ripe for the United States to revamp its capabilities to develop and secure strategic infrastructure overseas. The **National Defense Strategy** of 2026 outlined priorities to both counter China in the Indo-Pacific through "deterrence by denial" and increased "allied burden sharing." The 2026 **Maritime Action Plan** demonstrates a newfound commitment to reinvigorate the U.S. presence in global shipbuilding and maritime infrastructure, although with a domestic focus. Statements and activities over the past two years have stressed that adversarial influence over key

assets, such as ports in **Panama** and **Peru**, is increasingly intolerable to U.S. interests. The United States is waking to the threats posed by its receding influence over key sectors, supply chains, and overseas infrastructure, and is now actively preparing to reassert itself, revive dormant industries, and leverage its friends and allies to deny opportunities to its adversaries. As the United States rouses itself and these throughlines converge, the lessons learned in Subic Bay could not prove more relevant.

The U.S. Army provided a template for conditional contracts; the DFC's expansion equips it to be a more robust partner; and the financing avenues across the interagency have grown substantially. Promising progress has been made, new precedents have been set, and mandates have been clarified; now, this all must be operationalized. Critically, in this story, regional allies proved indispensable both in sounding the alarm and making the investment financially viable. Japan demonstrated a model for preempting Chinese influence, and the Luzon Economic Corridor, if successful, could provide a framework for allied investment coordination. The United States must ensure it remains the preferred partner to retain these relationships that ultimately won the day in Subic Bay. ■

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