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The United States Should Fear a Faltering China

Beijing's Assertiveness Betrays Its Desperation

By Michael Beckley October 28, 2019

The defining geopolitical story of our time is the slow death of U.S. hegemony in favor of a rising China. Harbingers of Beijing's ascent are everywhere. China's overseas investments span the globe. The Chinese navy patrols major sea lanes, while the country colonizes the South China Sea in slow motion. And the government cracks down on dissent at home while administering a hefty dose of nationalist propaganda.

Beijing's newfound assertiveness looks at first glance like the mark of growing power and ambition. But in fact it is nothing of the sort. China's actions reflect profound unease among the country's leaders, as they contend with their country's first sustained economic slowdown in a generation and can discern no end in sight. China's economic conditions have steadily worsened since the 2008 financial crisis. The country's growth rate has fallen by half and is likely to plunge further in the years ahead, as debt, foreign protectionism, resource depletion, and rapid aging take their toll.

China's economic woes will make it a less competitive rival in the long term but a greater threat to the United States today. When rising powers have suffered such slowdowns in the past, they became more repressive at home and more aggressive abroad. China seems to be headed down just such a path.

RED FLAGS

In March 2007, at the height of a years-long economic boom, then Premier Wen Jiabao gave an uncharacteristically gloomy press conference. China's growth model, Wen warned, had become "unsteady, unbalanced, uncoordinated, and unsustainable." The warning was prescient: in the years since, China's official gross domestic product (GDP) growth rate has dropped from 15 percent to six percent—the slowest rate in 30 years. The country's economy is now experiencing its longest deceleration of the post-Mao era.

A growth rate of six percent could still be considered spectacular. By way of contrast, consider that the U.S. economy has been stuck at a rate of around two percent. But many economists believe that China's true rate is roughly half the official figure. Moreover, GDP growth does not necessarily translate into greater wealth. If a country spends billions of dollars on infrastructure projects, its GDP will rise. But if those projects consist of bridges to nowhere, the country's stock of wealth will remain unchanged or even decline. To accumulate wealth, a country needs to increase its productivity—a measure that has actually dropped in China over the last decade. Practically all of China's GDP growth has resulted from the government's pumping capital into the economy. Subtract government stimulus spending, some economists argue, and China's economy may not be growing at all.

The signs of unproductive growth are easy to spot. China has built more than 50 ghost cities—sprawling metropolises of empty offices, apartments, malls, and airports. Nationwide, more than 20 percent of homes are vacant. Excess capacity in major industries tops 30 percent: factories sit idle and goods rot in warehouses. Total losses from all this waste are difficult to calculate, but China's government estimates that it blew at least $6 trillion on "ineffective investment" between 2009 and 2014 alone. China's debt has quadrupled in absolute size over the last ten years and currently exceeds 300 percent of its GDP. No major country has ever racked up so much debt so fast in peacetime.

Worse still, assets that once propelled China's economic ascent are fast turning into liabilities. In the 1990s and early 2000s, the country enjoyed expanding access to foreign markets and technology. China was nearly self-sufficient in food, water, and energy resources, and it had the greatest demographic dividend in history, with eight working-age adults for every citizen aged 65 or older. Now China is losing access to foreign markets and technology. Water has become scarce, and the country is importing more food and energy than any other nation, having decimated its own natural endowments. Thanks to the one-child policy, China is about to experience the worst aging crisis in history, because it will lose 200 million workers and young consumers and gain 300 million seniors in the course of three decades. Any country that has accumulated debt, lost productivity, or aged at anything close to China's current clip has lost at least one decade to near-zero economic growth. How will China handle the coming slump?

WE'VE SEEN THIS BEFORE

When fast-growing great powers run out of economic steam, they typically do not mellow out. Rather, they become prickly and aggressive. Rapid growth has fueled their ambitions, raised their citizens' expectations, and unnerved their rivals. Suddenly, stagnation dashes those ambitions and expectations and gives enemies a chance to pounce. Fearful of unrest, leaders crack down on domestic dissent. They search feverishly for ways to restore steady growth and keep internal opposition and foreign predation at bay. Expansion presents one such opportunity—a chance to seek new sources of wealth, rally the nation around the ruling regime, and ward off rival powers.

The historical precedents are plentiful. Over the past 150 years, nearly a dozen great powers experienced rapid economic growth followed by long slowdowns. None accepted the new normal quietly. U.S. growth plummeted in the late nineteenth century, and Washington reacted by violently suppressing labor strikes at home while pumping investment and exports into Latin America and East Asia, annexing territory there and building a gigantic navy to protect its far-flung assets. Russia, too, had a late-nineteenth-century slowdown. The tsar responded by consolidating his authority, building the Trans-Siberian Railway, and occupying parts of Korea and Manchuria. Japan and Germany suffered economic crises during the interwar years: both countries turned to authoritarianism and went on rampages to seize resources and smash foreign rivals. France had a postwar boom that fizzled in the 1970s: the French government then tried to reconstitute its economic sphere of influence in Africa, deploying 14,000 troops in its former colonies and embarking on a dozen military interventions there over the next two decades. As recently as 2009, world oil prices collapsed, which led a stagnating Russia to pressure its neighbors to join a regional trade bloc. A few years later, that campaign of coercion spurred Ukraine's Maidan revolution and Russia's annexation of Crimea.

The question, then, is not whether a struggling rising power will expand abroad but what form that expansion will take. The answer depends in part on the structure of the global economy. How open are foreign markets? How safe are international trade routes? If circumstances allow it, a slowing great power might be able to rejuvenate its economy through peaceful trade and investment, as Japan tried to do after its postwar economic miracle came to an end in the 1970s. If that path is closed, however, then the country in question may have to push its way into foreign markets or secure critical resources by force—as Japan did in the 1930s. The global economy is more open today than in previous eras, but a global rise in protectionism and the trade war with the United States increasingly threaten China's access to foreign markets and resources. China's leaders fear, with good reason, that the era of hyperglobalization that enabled their country's rise is over.

The structure of a country's home economy will further shape its response to a slowdown. The Chinese government owns many of the country's major firms, and those firms substantially influence the state. For this reason, the government will go to great lengths to shield companies from foreign competition and help them conquer overseas markets when profits dry up at home. A state-led economy like China's is unlikely to liberalize during a slowdown. Doing so would require eliminating subsidies and protections for state-favored firms, reforms that risk instigating a surge in bankruptcies, unemployment, and popular resentment. Liberalization also could disrupt the crony capitalist networks that the regime depends on for survival. Instead, regimes like China's usually resort to mercantilist expansion, using money and muscle to carve out exclusive economic zones abroad and divert popular anger toward foreign enemies. The most aggressive expanders of all tend to be authoritarian capitalist states, of which China is clearly a prime example.

TROUBLE AHEAD

China's recent behavior is a textbook response to economic insecurity. Back in the 1990s and the early years of this century, when the country's economy was booming, China loosened political controls and announced to the world its "peaceful rise," to be pursued through economic integration and friendly diplomatic relations. Compare the situation today: labor protests are on the rise, elites have been moving their money and children out of the country en masse, and the government has outlawed the reporting of negative economic news. President Xi Jinping has given multiple internal speeches warning party members of the potential for a Soviet-style collapse. The government has doubled internal security spending over the past decade, creating the most advanced propaganda, censorship, and surveillance systems in history. It has detained one million Uighurs in internment camps and concentrated power in the hands of a dictator for life. State propaganda blames setbacks, such as the 2015 stock market collapse and the 2019 Hong Kong protests, on Western meddling. These are not the actions of a confident superpower.

China has projected its power abroad throughout this turbulent period—tripling foreign direct investment and quintupling overseas lending in an ambitious attempt to secure markets and resources for Chinese firms. Beijing also has gone out militarily, launching more warships over the past decade than the whole British navy holds and flooded major sea lanes in Asia with hundreds of government vessels and aircraft. It has built military outposts across the South China Sea and frequently resorts to sanctions, ship-ramming, and aerial intercepts in territorial disputes with its neighbors.

If China's growth slows further in the coming years, as is likely, the Chinese government will probably double down on the repression and aggression of the past decade. When the country's leaders cannot rely on rapid growth to bolster their domestic legitimacy and international clout, they will be all the more eager to squelch dissent, burnish their nationalist credentials, and boost the economy by any means necessary. Moreover, powerful interest groups—most notably, stateowned enterprises and the military and security services—have developed a vested interest in maintaining China's current strategy, which funnels money into their coffers. As a result, the government would struggle to extricate itself from foreign entanglements even if it wanted to.

WASHINGTON'S BALANCING ACT

The danger to the United States and its allies is clear. Rampant espionage, protectionism, a splintered Internet, naval clashes in the East and South China Seas, and a war over Taiwan are only the more obvious risks that a desperate and flailing China will pose. U.S. statecraft will need to contain these risks without causing China to lash out in the process. To that end, Washington will have to deter Chinese aggression, assuage China's insecurities, and insulate the United States from blowback should deterrence and reassurance fail. The inherent tension among these objectives will make the task a very difficult one.

Some initiatives could help strike the proper balance. Instead of deterring Chinese expansionism by sailing provocative but vulnerable naval armadas past China's coastline, for instance, Washington could deploy mobile antiship and surface-to-air missile launchers on allied shores. If the United States joined the Comprehensive and Progressive Agreement for Trans-Pacific Partnership—and invited China to join, too—Beijing would have the motive and means to reduce its trade-distorting practices without fighting a 1930s-style trade war. China might spurn the offer, but then the treaty would at least strengthen the commitment of its signatories to the free flow of goods, money, and data. In so doing, it would limit the spread of China's mercantilist and digital authoritarian policies. The United States could supplement this stance by investing more in scientific research and investigations into specific Chinese companies and investors, so that it can maintain technological superiority without banning Chinese investment and immigration into the United States. These moves would not eliminate the root causes of U.S.-Chinese rivalry, but they would protect U.S. interests while avoiding a slide into a cold or hot war.

Perhaps in a few decades, Chinese power will gradually mellow. Now, however, is a moment of maximum danger, because China is too weak to feel secure or satisfied with its place in the world order but strong enough to destroy it. As China's economic miracle comes to an end, and Xi's much-touted Chinese Dream slips away, the United States must contain China's outbursts with a careful blend of deterrence, reassurance, and damage limitation. Compared to gearing up for a whole-of-society throwdown against a rising superpower, this mission may seem uninspiring. But it would be smarter—and ultimately more effective