

China Hasn't Reached the Peak of Its Power

Why Beijing Can Afford to Bide Its Time

By Oriana Skylar Mastro and Derek Scissors

As relations between the United States and China have spiraled down to a half-century low, a frightening new narrative has taken hold among some U.S. analysts and policymakers. It supposes that China's window of opportunity to "reunify" Taiwan with the mainland—one of Chinese President Xi Jinping's core foreign policy objectives—is closing rapidly, intensifying the pressure on Beijing to act swiftly and forcefully while it still has the chance.

This narrative rests on the belief that China's rise is nearing its end. Unprecedented demographic decline, a heavy debt burden, uneven innovation, and other serious economic problems have slowed China's growth and are likely to slow it even further, leaving the country without the military power or political influence to challenge the United States. Beijing is aware of these headwinds, the thinking goes, and is therefore likely to act soon, before it is too late. As the scholars Hal Brands and Michael Beckley have argued in *Foreign Affairs*, "China is tracing an arc that often ends in tragedy: a dizzying rise followed by the specter of a hard fall." In their view, it is now or never if China wants to redraw the world map.

But such analysis is misguided. True, China's economic ascent has slowed and will eventually reverse, impeding Beijing's military and political aspirations. But a "hard fall" is not in the cards. Any decline from China's economic peak is likely to be gradual—and possibly eased by heavy spending on research and development explicitly aimed at partially offsetting the country's demographic and debt-related woes. In fact, current income and defense spending trajectories suggest that China will have more resources to compete militarily with the United States over the next ten years than it has had over the last 20. As a result, Beijing will become more—not less—capable of projecting power while the United States will have difficulty countering Chinese military challenges in Asia. Far from a narrow window to achieve their geopolitical ambitions, then, China's leaders have space to bide their time.

DEMOGRAPHY, NOT DESTINY

Demographic decline all but guarantees China's eventual economic decline. But this process is likely to be gradual, not sudden, and the timing remains uncertain. China's labor force is probably shrinking and it will continue to shrink indefinitely because the population is about to start shrinking, if it has not started to do so already. In 2021, Chinese birth rates fell to a record low. The median age in China is about half a year older than in the United States, and by 2042 it will be almost seven years older, or on a par with Japan today. China's population will decline more quickly later this century, falling by more than 200 million people by 2060, according to one UN projection. As this decline unfolds, genuine economic growth will be essentially impossible.

But even in the midst of this demographic contraction, China will be at worst the world's third-largest national economy, as it was in the first decade of this century but with wealth and technological abilities that are closer to those of the United States. More likely, China will be the second-largest economy in the world. For the rest of this decade and the next, a peaking

population will not necessarily translate into a rapid economic decline. The dwindling of China's labor force has probably already been underway for a decade, but its economic growth has still outpaced that of the United States. No one believes that China's economic capabilities peaked in 2012 or, for that matter, in 2018. While labor force decline will eventually be a major problem for China, it is not clear when that will be. China's median age in 2032 is projected to be the same as the United States' in 2052. If demography is destiny, the United States will have declined sharply by then, too. But in reality, the United States' economic health, like China's, depends on many other factors.

One of those factors is debt. Debt already weighs on Chinese growth, but the problem is chronic, not acute. Total Chinese credit to the nonfinancial sector has increased substantially over the last decade, starting mainly in response to the 2008–9 global financial crisis. As of the end of 2019, this measure of outstanding debt stood at 263 percent of GDP, slightly higher than the U.S. share of 255 percent. China has been more prudent during the COVID-19 pandemic, but its debt burden could swell even larger as its population ages and it must care for a greater number of retirees. Still, the weight of China's debt will limit growth in a steady fashion, not causing a steep fall. As a result, China will have plenty of money on hand for military and related investments. According to the World Bank, China spent \$6.2 trillion on infrastructure, land, and machinery in 2019—\$1.6 trillion more than the United States spent. U.S. capital is more productive than Chinese capital, but there is little doubt that even with its high debt burden China will have considerable resources at its disposal long into the future.

Another factor that will shape China's economic trajectory is innovation. As ever, the Chinese Communist Party's need for control will limit the pace of innovation. On that score, Xi's regime has not performed well. It has attacked private technology firms and generally discouraged competition. But Beijing can afford to spend heavily on new technologies that will give it a moderate and enduring economic boost. According to the Organization for Economic Cooperation and Development, China spent roughly \$515 billion on research and development in 2019 while the United States spent \$633 billion. China's R&D spending is likely to rise for the rest of the decade, even as its economy slows. Beijing will also continue to coerce the transfer of technology from private companies doing business in China or to steal it outright. With its current economic system, China cannot become a leading innovator, but it has already caught up to the rest of the world in key fields such as 5G telecommunications and energy storage. Maintaining technological parity with the United States in at least some important areas over the next two decades will be easier than it was to close the previous technological gap.

MORE WITH LESS

Military trends are similarly favorable to China, at least over the next decade. That is in part because flagging economic prospects will take time to affect defense and in part because China has proven able to compete with fewer resources overall. China's military spending as a percentage of GDP has been decreasing since 2010, and the country has never spent more than 1.9 percent of GDP on national defense. (The United States spent 3.7 percent of GDP on defense in 2020.) For the last three decades, China's military spending has been a third of the United States'. And yet, largely because it has focused on acquiring asymmetric capabilities and limited its military ambitions to Asia, it has built a military that can now defeat the United States in a conflict over Taiwan.

And the future is bright for the People's Liberation Army. Although some of its modernization efforts remain unfinished, the PLA has made significant progress toward professionalizing its noncommissioned officer corps and hiring capable civilians to fulfill vital support roles. It is also recruiting more and more college graduates, improving its ability to conduct complex joint operations in a high-tech, information environment.

Over the next ten years, China's ability to project power throughout Asia will grow. By 2030, it will have four aircraft carriers, a network and space infrastructure that enhances the connectivity and thus the lethality of its forces, ground- and space-based weaponry capable of threatening U.S. military and civilian satellite constellations, and an air force that can challenge U.S. air superiority in Asia. It will have more naval ships than the United States and a nuclear arsenal that is larger, more survivable, and better able to threaten targets around the globe thanks to Chinese advancements in hypersonics. Any remnants of U.S. military superiority in Asia, such as Washington's better submarine capabilities, are disappearing. China has invested heavily in developing so-called antisubmarine warfare capabilities, including advanced helicopters and ship-based sonar systems that will be ready for action in the next ten years.

Of course, the U.S. military will not stand still as the PLA advances. The United States is building resilient space infrastructure and capabilities. It plans to deploy intermediate-range ballistic missiles to the Indo-Pacific now that Washington is no longer bound by the Intermediate-Range Nuclear Forces Treaty. And it plans to add new unmanned ships as well as more manned ships to the U.S. naval fleet to counter China. Headlining these efforts is the Pacific Deterrence Initiative, a Pentagon plan to enhance U.S. competitiveness in the Indo-Pacific. In this its inaugural year, the PDI includes approximately \$6 billion for new integrated command-and-control systems, drone capabilities, electronic warfare, F-35 fighters, ships to counter Chinese low-level aggression and provocation, and support systems and equipment for U.S. Marines and other ground forces.

But even with these investments, U.S. forces in the Indo-Pacific will have vulnerabilities that China can exploit for asymmetric advantage. For instance, the United States will be unable to defend its forward bases from Chinese missile attacks or its space assets from Chinese counterspace operations. Current procurement and acquisition plans reveal that in ten years, the United States will not have significantly more forces to deploy to the region than it has now. The U.S. Navy is modernizing, but it will not have its planned fleet of between 450 and 500 ships until 2045—a fleet size that China will have in just ten years.

All of this suggests that China has not yet reached its position of maximal military advantage vis-à-vis the United States. It is telling that although Western scholars such as Brands and Beckley suggest that a relatively stagnant economy should influence Chinese leaders' strategic calculus, encouraging them to act now or lose their chance, there is no evidence of this line of thinking in Chinese political or military writings, according to textual analyses carried out by natural language processing and analytics tools. Indeed, most Chinese strategists are sanguine about China's future. As former Chinese diplomat Zhen Bingxi wrote in a journal published by the People's Daily Press, China is "well on its way to becoming a global superpower," even if it will continue to lag behind the United States in certain areas. Some Chinese media commentators have explicitly pushed back against American rhetoric about "peak China," noting that the country "has long defied the pessimistic predictions of American media outlets and academia," as one journalist put it in a pro-Beijing Hong Kong media outlet.

Some might dismiss these comments as predictable attempts to rebut a narrative of Chinese decline. But no authoritative Chinese military writings consider the argument that China needs to take Taiwan now because the window of opportunity is closing, even though Chinese security commentators regularly debate other sensitive topics such as the effectiveness of China's efforts at peaceful unification with Taiwan. Such writings suggest that Chinese leaders increasingly believe they could take Taiwan by force and that peaceful unification is not working. Xi's rhetoric, moreover, indicates that he may want to achieve unification to seal his legacy. Once he is confident that the PLA is ready, therefore, he may move swiftly to take Taiwan—not because he will not have another chance but because the future is always uncertain.

If this is Xi's thinking, he is right. Even if its growth stagnates over the next decade, China will still likely be the world's second-largest economy. Any austerity measures instituted then would take many years to reach the military. And one thing is certain: China will be more capable militarily in 2035 than it is today.

CONFIDENT CHINA, CAPABLE CHINA

An anxious China at the peak of its power and a confident China still on the military ascent can be expected to act in similar ways. Both will be more aggressive, especially when it comes to territorial issues such as Taiwan. But these different motivations for Chinese aggression suggest different strategic responses from the United States: a peaking China will be the most dangerous over the next decade, whereas a still ascendant one will be a threat for much longer than that. The United States should be wary of short-term solutions that undermine its ability to compete in the long term and prepare equally for a war in 2027 and 2037.

There is a silver lining, however. A peaking power may fight to the death since it has only one chance to remake the international order. But a power that knows it will have more opportunities to get its way may be more willing to back down from a military confrontation that does not go as planned. For example, if Xi made a move for Taiwan and met resistance, he could still claim victory, perhaps after seizing an offshore island or merely after declaring that he has taught a lesson to "separatists" in Taiwan and "imperialists" in the United States. A confident power is also less likely to be provoked into starting a war. Although it conducted concerning large-scale military exercises near Taiwan after U.S. Speaker of the House Nancy Pelosi visited the island this month, China refrained from more aggressive actions—intercepting Pelosi's aircraft, for instance—that might have risked igniting a conflict. That may be because the best war for a confident China is one in which the PLA moves quickly against Taiwan and gives little warning to the United States.

For years to come, the United States is more likely to face a confident, capable China than an insecure, reckless one. Washington will not emerge victorious from this contest because Beijing steps out of the race, as Moscow did at the end of the Cold War. To secure its interests in Asia, therefore, the United States must prepare for a war with China, whether tomorrow or two decades down the road.

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