



CHAPTER THREE

TURBULENCE AHEAD:

HAS CHINA'S ASCENT REACHED ITS PEAK?

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*The rise of a great power often brings about its own set of challenges,
which can lead to its decline.*

— Orville Schell and John Delury, *Wealth and Power*, 2013

Abstract

China's trajectory has fueled intense debate in recent years. This analysis examines whether China has reached its peak and the geopolitical implications of its current path. By examining economic and military factors, the study highlights the forces behind China's rise, the potential headwinds hindering its progress, and the risks these pose for the United States. The findings suggest that China has peaked due to demographic and economic pressures, pushing the Chinese Communist Party to choose between internal reforms or rallying the populace around a real or perceived external threat. China's potential decline presents a critical challenge for U.S. strategic decision-making.¹

Introduction

The Chinese Communist Party (CCP) pilots a turbulent flight, its once-lofty destination of surpassing the U.S. economy now shrouded in doubt. Recent market downturns and the looming specter of unfulfilled promises have all aboard question the journey's outcome. This uncertainty has fueled a deeply polarized discourse about China's trajectory. Proponents tout the nation's formidable economic power, abundant resources, and centralized governance as indicators of continued ascent. Skeptics, however, point to mounting demographic hurdles, rapid urbanization

challenges, financial vulnerabilities, and simmering internal dissent as warning signs of a potential peak.

Amidst this contentious debate, this analysis seeks to determine if China has reached its zenith and uncover the geopolitical ramifications of its current trajectory. This investigation is grounded in power transition theory and the dynamics of great power rise and decline. This framework posits that economic and military power shifts can challenge the existing global order, leading to periods of conflict or cooperation. Through this lens, we can better understand China's rapid rise and its potential to reach a plateau due to inherent structural challenges.

By examining the economic and military instruments of power, we can trace China's ascent, identify potential headwinds, and assess the risks for the United States. Evidence suggests that China's climb may have stalled, constrained by significant demographic and economic challenges. The CCP now faces a critical choice: navigate these challenges through internal policy adjustments or rally the populace against a perceived external threat. Both options aim to safeguard the party's power, yet the path chosen will have profound global consequences.

The implications of China's potential peak present the United States with its most pressing geopolitical challenge of our time. Understanding the complexities of China's trajectory within the theoretical constructs of power transition and great power dynamics is paramount. Strategic decisions in response to China's future will shape the global landscape for years. This chapter integrates these theoretical insights to analyze China's current position and forecast its future paths. It offers a comprehensive view of the geopolitical implications for the United States and the broader international community.

Setting the Stage:

Understanding China's Rise and the Rules of the Game

Before delving into the debate regarding whether China has reached its peak, it is imperative to establish a framework for analyzing its trajectory. This requires clarifying key terms such as “rising power” and “great power” and defining what it means for a nation to reach its peak. Moreover, it is essential to understand how nations generate and employ power to achieve their strategic objectives. This entails an examination of the national instruments of power.

Instruments of Power:

The Engine of National Strength

The U.S. Joint Doctrine on Strategy identifies diplomatic, information, military, and economic (DIME) levers as the traditional instruments of national power. It also recognizes a broader framework, “MIDFIELD,” which encompasses finance, intelligence, law, and development,² acknowledging the multifaceted nature of power in the modern world. While economic prosperity is often viewed as the cornerstone of national strength, a robust economy is essential for enabling and enhancing all other instruments of power, particularly the military.³

A nation's power is the sum of all available resources to pursue national objectives. A strong economy with free access to global markets and resources fuels general welfare and provides the foundation for a formidable national defense.⁴

China, as a rising power, exemplifies this interconnectedness of instruments. It pursues economic growth through a distinctive state-led model, leveraging its vast governmental apparatus to direct investment, control information, and project military power. The Ministry of Finance and People's Bank of China are central to this model, setting economic and financial policies to drive growth and stability. Simultaneously, the State Council Information Office and Central Propaganda Department meticulously manage the narrative

surrounding China's economic progress, both domestically and internationally. This information control maintains social stability and bolsters the legitimacy of the CCP's rule.

Meanwhile, the Ministry of National Defense oversees the ambitious expansion and modernization of the People's Liberation Army (PLA). This military buildup is a display of strength and a strategic investment to secure China's economic interests, protect trade routes, and assert its influence in the region and beyond.

Understanding this integrated approach to power is crucial for assessing China's trajectory. The following sections delve deeper into the economic and military dimensions of China's rise, examining the factors that have propelled its growth and the potential headwinds that could impede its progress.

*Rising Powers and Great Powers:
China's Ascent*

Manjari Chatterjee Miller, in her seminal work *Why Nations Rise*, explores how some countries ascend to great power while others falter.⁵ She highlights two critical assumptions in international relations theory:

1. *RELATIVE POWER*: Nations rise when their economic and military might, relative to the existing dominant power, grows enough to challenge the status quo. This relative power shift is the most significant indication of a rising power.
2. *REVISIONIST TENDENCIES*: Rising powers are often revisionists, meaning they seek to reshape the international order to better reflect their interests and values.

Miller defines a rising power as a state on the trajectory to become a great power that shapes the global landscape. She outlines three essential criteria for this transformation: increasing relative

economic and military power, expanding global interests, and gaining recognition as a future great power.⁶

China undeniably fits the profile of a rising power. Its burgeoning economy and rapidly modernizing military have propelled it to global prominence in both realms. China has demonstrated a clear ambition to extend its influence worldwide through vast exports, control over crucial commodities, the Belt and Road Initiative's (BRI) sprawling infrastructure projects, and substantial foreign investments. The BRI is a global development strategy launched by China in 2013, aiming to enhance trade, investment, and infrastructure connectivity between China and over 60 countries across Asia, Africa, and Europe. Some even argue that China's confidence in reclaiming its historical position as the Middle Kingdom borders on hubris.

The U.S. National Security Strategy echoes Miller's second assumption, labeling China a revisionist power intent on reshaping the international order.⁷ This assessment underscores the importance of critically evaluating China's trajectory and potential implications for the global balance of power.

Defining a Peak:

The Challenge of Assessing Trajectories

But how do we determine if a nation has reached its peak? Simply put, peaking signifies reaching the highest point, whether a plateau or a decline in relative power. In hindsight, it is easy to identify peaked civilizations—ancient empires like Greece, Rome, Persia, and Egypt no longer wield global influence. However, assessing the current landscape of rising and established powers is far more complex. Will they continue their ascent or follow a similar path to historical obscurity?

In his analysis "The Future of China's Rise," Alex Vuving suggests that gauging relative economic and military power gains is more informative than focusing on absolute gains. This approach

allows for a dynamic assessment of a nation's trajectory and its potential to maintain or lose its position relative to other global powers.

China's economic and military instruments are central to its status as a rising and revisionist state. Examining its evolution and potential constraints will determine whether China has reached its peak. The following sections delve into these instruments' specifics, analyzing the factors that have propelled China's rise and the challenges that could hinder its continued ascent.

The Wings of Flight: China's Economic Ascent and Potential Stall

The economy is the beating heart of national power, especially for a capitalist society engaged in global trade. However, even communist or socialist states, like China, rely on a flourishing economy to provide for its people, fund its military, and participate in global markets. China's remarkable modernization, often traced back to President Nixon's 1972 state visit and culminating in China's 2001 entry into the World Trade Organization, is intrinsically linked to its economic transformation.

In 2004, amidst the Global War on Terror, Frank Gaffney Jr. emphasized the growing importance of economic power in influencing global behavior.⁸ He highlighted how trade policies, financial decisions, and control over resources could be wielded as powerful tools on the international stage.⁹ The ongoing conflict in Ukraine, with its complex web of sanctions and economic coercion, serves as a stark reminder of the potency of economic warfare.

Unlike Russia, which has vast resources and relative insulation from Western sanctions, China is deeply integrated into the global economy, making it more susceptible to external pressures. The conflict in Ukraine has forced China to confront its vulnerabilities and consider strategies to mitigate risk, recognizing its greater exposure compared to Russia. However, Russia's efforts through the

BRICS framework—a coalition of five major emerging economies: Brazil, Russia, India, China, and South Africa—aim to develop economic systems that are more resilient to Western sanctions and may offer valuable lessons for China.¹⁰

To understand China's trajectory, we must examine the four key economic power instruments that Harry LeBoeuf identified: macroeconomic policy, trade policy, economic sanctions, and foreign aid.¹¹ These instruments and the four economic power engines—land, labor, capital, and entrepreneurship—provide a comprehensive framework for assessing China's economic strength. Analyzing economic power through gross domestic product (GDP) per capita and its components—investment, government spending, consumer spending, and exports—offers valuable insights into China's economic performance and future potential.

Land:

A Resource-Rich Landscape with Inherent Challenges

China's vast landmass, the third-largest globally, is a double-edged sword for economic development. While it boasts abundant resources like coal, hydroelectricity, rice, rare earth metals, and minerals, it also faces significant geographical constraints. Unlike the United States and Canada, which are protected by vast oceans and fewer neighbors, China's extensive land borders necessitate a large standing army for defense, diverting resources from other sectors.

Furthermore, China's land resources present challenges. Limited access to clean water threatens human consumption and agricultural productivity, raising concerns about food security.¹² Arable land is scarce and shrinking, exacerbating these concerns. Moreover, while China possesses certain valuable resources, it relies heavily on imports for critical industrial inputs like machinery, integrated circuits, crude oil, steel, and copper.¹³ This dependence on foreign suppliers leaves China's economy vulnerable to external

shocks and supply chain disruptions, as highlighted by the recent global chip shortage.

In contrast, as geopolitical analyst Peter Zeihan emphasizes, the United States enjoys a significant geographical advantage due to its abundant resources, fertile land, and protective oceans.¹⁴ This favorable geography has played a crucial role in America's economic development and global power projection.

China's land resources, while undoubtedly valuable, present a complex picture. The country's geographical constraints, water scarcity, and reliance on imports significantly challenge its continued economic growth and stability. These challenges will be explored further as we examine the interplay of land, labor, capital, and entrepreneurship in shaping China's economic trajectory.

Labor:

A Shrinking Workforce and Looming Demographic Crisis

While China's population was once the largest globally, India has recently overtaken it. However, sheer numbers do not tell the whole story. While Indian citizens outnumber their Chinese counterparts, China's population enjoys a higher standard of living and greater economic opportunities.

Historically, a massive rural-to-urban labor migration fueled China's economic growth. This vast pool of inexpensive labor drove manufacturing and exports, propelling China's economic miracle. However, this model now faces significant challenges. High urban unemployment rates indicate a saturated labor market,¹⁵ and the flow of cheaper rural labor is dwindling.

Moreover, China is confronting a looming demographic crisis. Falling birth rates and increased life expectancy have led to an aging population; a trend mirrored in many developed nations. However, unlike countries like the United States, which offsets low fertility

rates with immigration, China's homogenous society and strict immigration policies offer little relief.

The "one-child policy," implemented for decades to control population growth, has exacerbated this demographic imbalance. While recent relaxations of this policy have led to a slight uptick in births, the long-term consequences are undeniable. China now faces a shrinking workforce and a growing elderly population, as highlighted by Akimov, Gemueva, and Semenova's analysis of the seventh population census.¹⁶

Some experts, including Akimov et al., remain optimistic, believing that technological advancements in automation and robotics can compensate for the declining labor force.¹⁷ However, even Chinese experts acknowledge the grim reality: "The next generation is smaller than the previous generation. The total population will inevitably decrease, consumption will inevitably decrease, the economy will inevitably shrink, and the national power will inevitably decrease."¹⁸

Until such technological solutions become widespread, China's demographic challenges are inextricably linked to its economic health. The shrinking workforce and aging population pose significant risks to China's future growth stability. The country's ability to adapt to this demographic shift will determine its economic trajectory in the coming decades.

Capital:

Fueling Growth, Sowing Instability

The adage "it takes money to make money" is a cornerstone of economic understanding. Access to capital, the financial lifeblood of any economy, directly impacts growth and development. However, capital flow dynamics are complex, with various factors influencing availability and distribution.

China's economic rise has been fueled by a unique blend of policies to generate and mobilize capital. These policies include fostering a national savings culture, suppressing wages to limit domestic consumption and boost exports, and creating a favorable environment for venture capitalism. While successfully driving unprecedented growth, these strategies have led to mounting economic imbalances and vulnerabilities.

One of the most pressing concerns is China's escalating debt burden. National, provincial, and even local governments have accumulated massive debts to fuel infrastructure projects and stimulate economic growth. This internal debt and extensive foreign lending through initiatives like BRI have exposed China to significant financial risks. The International Monetary Fund (IMF) has raised alarms about the opacity of China's lending practices, with many loans hidden from public scrutiny, potentially understating the true extent of the country's financial exposure.

As economist Michael Pettis explains, the surge in Chinese debt is a symptom of deeper structural imbalances.¹⁹ The misallocation of investment into excess property, infrastructure, and manufacturing has led to cumulative but unrecognized losses masked by accounting practices that treat them as assets. These losses are a ticking time bomb threatening China's economic stability.

Moreover, China's reliance on suppressing wages to maintain a competitive advantage in global markets has created a growing wealth disparity and a stagnant domestic consumer market. This imbalance hinders sustainable economic growth and leaves China vulnerable to external shocks.

While China's capital-driven growth model has yielded impressive results in the past, its long-term sustainability is increasingly questionable. The mounting debt, unrecognized losses, and suppressed consumption pose significant risks to China's economic future. The challenge for China's leadership is to navigate

these complexities, address the underlying structural issues, and transition toward a more balanced and sustainable growth model. Failure to do so could have far-reaching consequences not only for China but also for the global economy.

Entrepreneurship:

A Potential Engine of Growth, but Can it Soar?

Entrepreneurship is a vital catalyst for economic growth and adaptability, fostering innovation and generating new industries. China, recognizing this, is actively seeking to transform its image from the “world’s factory” to a global hub for startups and innovation. While this remains an aspirational goal, there are signs of progress.

A 2021 World Economic Forum article suggests that Chinese society is gradually shifting away from traditional risk aversion, creating a fertile ground for entrepreneurial ventures.²⁰ Edward Tse, a business consultant and author, argues that entrepreneurship in China is essentially a bottom-up phenomenon driven by a young and dynamic generation more aligned with Silicon Valley’s culture of innovation than Beijing’s top-down directives.²¹ Furthermore, Chinese startups are increasingly succeeding in emerging markets across the Global South, indicating a growing international reach.²²

However, while entrepreneurship offers a glimmer of hope for China’s economic future, the economy still faces significant headwinds. The remaining challenge of the other three economic power engines—land, labor, and capital—cannot be ignored. The shrinking workforce, limited resources, and mounting debt burden greatly overshadow sustained growth prospects.

Examining these four factors reveals China’s complex and potentially precarious economic landscape. While entrepreneurship could provide a much-needed boost, it remains to be seen whether it can single-handedly offset the mounting challenges. The following sections will delve deeper into the specific economic headwinds

facing China, analyzing their potential impact on its future trajectory. It is crucial to remember that these issues, while potentially symptoms of flawed policies, could collectively culminate in a significant economic downturn, marking a peak for the Chinese economy.

*Inflight Emergency:
Warning Signs of China's Economic Descent*

The preceding analysis of China's economic engines reveals a complex picture. While impressive growth has been achieved, significant vulnerabilities and challenges loom, raising the specter of a "Japanification" scenario—a prolonged period of economic stagnation, deflation, and other headwinds. The parallels between China and Japan are striking: both face an aging population, a declining birth rate, and minimal immigration. These demographic factors can lead to a shrinking workforce, reduced consumption, and increased social welfare costs, significantly impeding economic growth.

Moreover, China's debt levels, particularly in the real estate sector, have reached alarming heights. This reliance on debt-fueled growth creates significant financial vulnerabilities and risks of economic imbalances. The bursting of China's property bubble, akin to Japan's experience in the 1990s, could trigger a cascade of negative consequences, including a credit crunch, reduced investment, and a sharp decline in economic activity.

Furthermore, China's highly centralized economic model, characterized by extensive government intervention and control, can exacerbate these risks. While central planning has played a role in China's rapid growth, it can also lead to resource misallocation, inefficient investments, and a lack of market-driven innovation. The opaque nature of decision-making and the potential for policy missteps increase uncertainty and risk for investors and businesses, potentially hindering future growth.

In essence, the warning signs of China's economic descent are flashing. Demographic challenges, soaring debt levels, a bursting property bubble, and rigid central planning contribute to a growing sense of unease about China's economic future. The question is not if China will face economic headwinds but *how severe* they will be and *how effectively* the Chinese government will respond. The subsequent sections will delve deeper into these challenges, examining their potential impact on China's trajectory and exploring the policy options available to mitigate these risks.

Economic Turbulence:

Warning Signs of an Impending Economic Descent

The dawn of 2024 revealed growing instability in the global economy, with China facing particularly notable challenges. The impending liquidation of Evergrande, a major Chinese property developer and debt holder, has sent shockwaves through the financial markets, exposing the fragility of China's debt-laden economy and the far-reaching consequence of President Xi Jinping's anti-corruption campaign. The detention of Evergrande's founder, Hui Ka Yan,²³ highlights the growing risks business leaders and entrepreneurs face in China's increasingly controlled economic landscape.

The Evergrande crisis is symptomatic of deeper structural issues plaguing China's economy. The property sector, accounting for 30% of China's GDP,²⁴ is experiencing a widespread downturn, with many developers facing similar challenges.

Fueled by excessive real estate investments to meet ambitious GDP targets, this inflated growth has created a precarious situation. As economist Michael Pettis explains, such non-productive investments may temporarily achieve political objectives but ultimately lead to unsustainable debt levels and economic imbalance.²⁵

The fallout from Evergrande's collapse has intensified market uncertainty, fueling capital flight and exacerbating economic concerns. China's economy has experienced significant strains beyond the global pandemic, resulting in a sharp 50% decline in the stock market since its 2021 peak. This downturn, coupled with rising deflation and escalating labor strikes, paints a bleak picture of China's economic outlook.

Growing discontent among the population, particularly young people facing limited opportunities and rising inequality, poses a significant risk to the ruling party's stability.²⁶ The specter of social unrest looms large as economic grievances fester. China's GDP growth has slowed considerably since the double-digit figures of previous decades, suggesting that the era of unbridled economic expansion may be nearing its end.

Available data indicates that China may be reaching an inflection point.²⁷ The once-explosive growth appears to be leveling off, raising questions about the sustainability of China's economic model. The confluence of factors, including demographic challenges and mounting debt, social unrest, and slowing growth, suggests that China's economy faces significant headwinds.

While official estimates from the IMF report China's GDP growth at 5.4% and forecast "around 5%" for 2023,²⁸ a more critical analysis by the Rhodium Group suggests a significantly lower growth rate of 1.5% was achieved.²⁹ This discrepancy highlights the opacity of official data from the Chinese government and raises concerns about the underlying weaknesses in China's economy.³⁰ Regardless of which figures are accepted, China's growth has slowed to low single digits for the first time in decades, signaling a potential inflection point in its economic trajectory.

The slowdown in growth raises questions about the sustainability of China's current economic model and the potential for further deceleration in the coming years. The following sections will delve deeper into these challenges, examining their potential

impact on China's trajectory and exploring policy options to navigate this turbulent economic landscape.

The Heavy Weight of Military Modernization

In the late 1990s, inspired by the United States' swift victory in Desert Storm, the PLA embarked on an ambitious modernization effort. The 1995-96 Taiwan Strait Crisis, which saw the United States deploy two carrier groups to the region, further solidified China's determination to bolster its military capabilities. This modernization has been fueled by sustained growth in defense spending, with double-digit percentage increases in most years since the late 1990s.³¹

While the official military budget may not capture the full extent of China's defense expenditures, it is clear that the PLA has become a formidable force. China's investment in anti-access/area denial (A2AD) capabilities, which are designed to prevent or limit the ability of adversaries—particularly the United States—to project power into strategically important regions, has significantly hampered the United States' ability to intervene in the area, as evidenced by numerous war game simulations.³² Although this modernization has transformed the PLA into a more capable fighting force, it has also raised expectations for its performance, which are often undercut by issues of trust and corruption within the ranks.³³

Costly Balancing Act

The PLA faces the daunting task of deterring or defending against multiple regional rivals, including India and Russia, with large standing armies. Additionally, the PLA Navy (PLAN) must contend with a significant presence of other regional naval powers.³⁴ Ensuring food security is a top priority, requiring the PLAN to protect fishing fleets and trade routes, as China increasingly relies on imports to meet its growing food demands.

This heavy reliance on imports, particularly for soybeans and fish, highlights China's vulnerability to disruption in global supply chains. The PLAN's aggressive tactics in securing these resources, including using its coast guard and maritime militia, raises concerns about the sustainability of such practices and their potential to escalate tensions with other nations.

The PLAN's modernization efforts include developing the capacity to blockade Taiwan and support a potential cross-strait invasion. Such an undertaking would be monumental, replicating the scale and complexity of the Normandy landings in 1944. Given the inherent risks and uncertainties, the CCP's high expectations for its navy's performance in such a scenario may be overly optimistic.

Modernization at a Cost

The PLA's modernization extends beyond its navy, encompassing all branches of the armed forces. From cyber and information capabilities to advanced fighter jets and expanded nuclear arsenal, the PLA rapidly enhances its ability to project power and defend its interests.³⁵ However, this modernization comes at a steep price in terms of financial resources and human capital. The allocation of substantial resources to the military could strain China's economy, especially as it grapples with other challenges like demographic shifts and slowing growth.

In conclusion, while impressive in its scope and ambition, China's military modernization has challenges and limitations. The high cost of this endeavor, coupled with the complex geopolitical landscape and potential for internal weaknesses, could undermine China's ability to achieve its strategic objectives. As China's economic growth slows and its internal challenges mount, its military ambitions' sustainability will be tested.

The Human Factor: Challenges in Training and Retaining Talent

Educating and training skilled personnel is becoming increasingly challenging with the PLA's rapid modernization and growing reliance on high-tech equipment. The U.S. Department of Defense (DOD) has adapted its recruitment, training, and retention strategies to address similar challenges in the digital age. Recognizing a shrinking pool of qualified volunteers, the DOD has shifted its focus from attrition-based models to emphasizing each recruit's successful training and development.

The PLA must evolve as its needs and the available talent pool change. The CCP has implemented various initiatives to incentivize military service, including offering financial incentives to college students for participating in military training and indoctrination programs.³⁶ It has also targeted technology schools and universities with information operations to attract tech-savvy individuals to the military. Additionally, the CCP has implemented policies to support military families, such as a three-child policy and enhanced benefits for childcare, healthcare, and housing.

PLA recruitment efforts will continue to face significant hurdles. The competition for talent between the military and the private sector is fierce, with many young Chinese opting for careers that offer greater financial rewards and personal freedoms. While recently modified to improve readiness, the conscription cycle still challenges maintaining a consistently trained and experienced force.

Despite the PLA's modernization efforts, questions remain about actual readiness in the event of conflict. As Aadil Brar of Newsweek points out, there are concerns about the PLA's ability to adequately staff its increasingly sophisticated equipment and systems.³⁷ The ongoing demand for skilled personnel, coupled with the high cost of training and retention, will continue to strain the PLA's resources and potentially hinder effectiveness.

The human factor, often overlooked in discussions of military power, is a critical determinant of a nation's ability to project force and achieve its strategic objectives. As China's demographic landscape shifts and its military ambitions grow, the PLA must adapt its recruitment, training, and retention strategies to ensure it has the skilled personnel necessary to operate its increasingly complex and technologically advanced arsenal. The success or failure of these efforts will have profound implications for China's military power and its role on the global stage.

China at a Crossroads: Implications of a Potential Peak

China's economic trajectory is showing signs of reaching a plateau or peak, evidenced by declining GDP growth, capital flight, plummeting birth rates, and a shrinking middle class over the past five years. The PLA's modernization and associated human capital and monetary costs will continue to strain the CCP. As China's ascent potentially levels off, the world watches to see if it can sustain its current position or manage a controlled decline. While there are numerous implications for China, this analysis will focus on a few key areas.

Three potential paths lie ahead for China:

1. *COLLAPSE OF THE CCP*: Mounting economic and social challenges could overwhelm the CCP's ability to control itself, leading to its downfall.
2. *SUCCESSFULLY INTERNAL REFORM*: The CCP could enact significant policy reform and governance changes to address underlying issues and successfully navigate these challenges.
3. *NATIONALIST MOBILIZATION*: The CCP could galvanize nationalist sentiment by focusing on an actual or manufactured existential threat, a strategy often employed

throughout history to consolidate power and deflect attention from internal problems.

The path China takes will have profound implications not only for the country itself but also for the global economic and geopolitical landscape. Understanding these potential scenarios is crucial for assessing the risks and opportunities that lie ahead.

*Navigating China's Economic Challenges:
Internal Solutions and Potential Outcomes*

The CCP has long promised its citizens an improved quality of life in exchange for enduring the party's demands. This promise has been upheld through consistent economic gains, but these gains are now faltering. The question looms: what happens if the current economic headwinds intensify?

One extreme, though unlikely, possibility is the collapse of the CCP. The widespread protests against Xi's zero-COVID policies in 2020, which breached the "Great Firewall" and saw citizens openly defying authorities,³⁸ demonstrate the potential for popular discontent to challenge the regime. While the CCP ultimately eased restrictions, the success of these protests could inspire further challenges.

However, the fall of the CCP remains an unlikely outcome. No internal institution is poised to fill the void by its absence. While mass revolts or internal factional conflict could theoretically lead to its downfall, the consequences would be catastrophic. Similar to the fall of the Soviet Union, the international community would need to grapple with securing China's nuclear arsenal.

A more plausible scenario is that the CCP addresses its challenges through internal policy reforms. However, this path is not without obstacles. Xi Jinping's consolidation of power, while aimed at rooting out corruption, has also fostered a climate of conformity

and stifled initiative. This lack of innovation and risk-taking could hinder the CCP's ability to adapt and implement effective solutions.

Despite these challenges, the CCP could surprise the world by reversing course and embracing a more classic form of communism or fostering a consumer-driven economy and a thriving middle class. The United States and the international community have a role in supporting such reforms. As Treasury Secretary Janet Yellen stated, "China's economic growth need not be incompatible with U.S. economic leadership."³⁹

China could overcome its economic hurdles by focusing on innovation, transitioning toward a consumer-driven economy, and effectively managing its debt. Additionally, leveraging biotech and robotics could help address the productivity gap expected from an aging population. The most desirable outcome would be effective policy and economic reforms, leading to a "soft landing" for China. The United States should discreetly lead such reforms to facilitate changes and prevent more disruptive outcomes.

A third and potentially the most disastrous outcome is a hot war between the United States and China. Whether triggered by disputes in the South China Sea or a Chinese attempt to seize Taiwan, such a conflict would have devastating global consequences. The international community must employ integrated deterrence to avoid this scenario, preventing Beijing from believing it can violate international norms without repercussions. A coalition of allies and partners is essential for deterring Xi Jinping and maintaining regional peace.

Global Implications: Navigating a Shifting Geopolitical Landscape

The risk of conflict remains elevated as China grapples with its economic downturn. The international community and neighboring countries must remain vigilant for scenarios the CCP could exploit to unify the nation. These crises could arise from various

flashpoints, such as disputes over fishing rights, restricted access to critical goods, or escalating claims over disputed territories.

China's BRI and international debt management practices will significantly impact regional security as the Global South experiences economic strain. Countries like Sri Lanka have already faced financial collapse, and others like Laos may follow suit. The inability of nations to service their Chinese loans could trigger crises, leading to mass displacement of refugees fleeing poverty and famine or even increased conflict as neighboring countries compete for resources or attempt to quell internal unrest. These complex problems affect not only the countries facing financial ruin but also their neighbors and China itself, as unpaid loans burden its economy and underscore the need for reform.

These developments would necessitate reevaluating the U.S. military's structure as the global order shifts. The future may demand a military focusing more on securing resource extraction, manufacturing, and trade routes, addressing instability in failing nations, and relying on partner nations to take on more significant regional leadership roles. Demographics, technology, and innovation will also shape the future force, potentially reducing workforce requirements. Future military formations may resemble those used in the Global War on Terror, capable of conducting stability operations, peacekeeping missions, and foreign internal defense.

Critical to the United States will be its relationships with allies and partners. Increased interoperability, forward basing, and investment in logistics are crucial to counter China's efforts to impede U.S. intervention. While immediate investment in partners, integrated deterrence, and defense modernization should continue, the 2030s may see a return to smaller-scale conflicts as fragile countries become increasingly vulnerable due to their reliance on high-interest loans. As more nations face financial collapse, the

lessons learned from the Global War on Terror will be invaluable, as regional conflicts will likely surge after China's decline.

Charting a Course Amidst Uncertainty: A Policy Roadmap

The global community must proactively address emerging challenges and opportunities as China navigates its complex and uncertain trajectory. China's potential decline presents risks and strategic imperatives for the United States and its allies, requiring adaptive and forward-thinking policies that balance deterrence and engagement, ensuring stability while promoting mutual economic and security interests. Policymakers, analysts, and strategists would do well to prioritize these key actions:

1. *FORTIFY ALLIANCES*: Strengthen existing alliances and forge new partnerships, particularly in the Indo-Pacific region, to build a unified coalition capable of effectively addressing China's influence.
2. *PRIORITIZE ECONOMIC DIPLOMACY*: Encourage economic reforms and collaborations that incentivize China to adopt a more sustainable and consumer-driven growth model, mitigating the risks associated with destabilizing economic policies.
3. *BOLSTER MILITARY READINESS*: Enhance military capabilities and modernization efforts to maintain a credible deterrence posture capable of swift and effective responses to regional contingencies.
4. *MAINTAIN STRATEGIC ENGAGEMENT*: Pursue ongoing dialogue with China on areas of mutual interest, such as climate change, global health, and nonproliferation. While upholding a firm stance on sovereignty, human rights, and international law, engagement can help manage tensions and prevent misunderstandings that could lead to conflict.

5. *INVEST IN COMPREHENSIVE ANALYSIS*: Dedicate resources to comprehensive monitoring and analysis of China's internal dynamics, including economic trends, social stability, and military developments. This will require enhanced intelligence gathering and analysis capabilities and greater collaboration with academic institutions and think tanks to develop a nuanced understanding of China's complex and evolving landscape.

By implementing these proactive measures, the international community can effectively navigate the complexities of a potentially declining China, fostering a stable and secure global order that benefits all nations. This approach will require a combination of vigilance, adaptability, and cooperation to ensure a peaceful and prosperous future for the worldwide community.

Conclusion:

Charting a Path Forward in an Era of Uncertainty

The world is not currently witnessing a transition of power from the United States to China. This scenario was once feared as a likely trigger for conflict between two superpowers. However, the risk of conflict remains high over the next decade, driven not by China's ascendancy but by the potential consequences of its economic and demographic challenges.

China stands at a crossroads, facing internal pressures that signal a potential peak in relative power. The implications of these challenges are far-reaching, with possible outcomes ranging from the collapse of the CCP to arduous policy reforms or even the fabrication of external threats to rally the nation for war.

Navigating this uncertain terrain requires a nuanced understanding of the sources of China's power, the reforms that could facilitate a "soft landing," and the strategies needed to prevent manufactured crises from escalating into conflict. While investing in integrated deterrence and preparing for potential near-peer

conflict remains prudent, the 2030s may see a return to smaller-scale conflicts and stability operations as the consequences of BRI debt, demographic shifts, food scarcity, and a weakened China trigger instability and conflict in vulnerable states.

As China grapples with its plateauing growth, policymakers, analysts, and strategists must remain vigilant, closely monitoring developments and crafting responses to the potential spillover effects. Integrated deterrence and tangible demonstrations of military strength will be essential, alongside discreet diplomatic efforts to encourage constructive reforms—to the extent that Chinese pride permits. The world watches with bated breath to see how and where China will ultimately land: safely on a runway or in a catastrophic crash.

Endnotes

- ¹ Note: This chapter, originally titled “Beyond the Peak: Implications of a Declining People’s Republic of China,” has been updated since receiving recognition as a 2024 U.S. Army War College (USAWC) Fellow Strategic Research Project. For more information, please see the announcement at <https://www.armywarcollege.edu/news/Archives/14420.pdf>.
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