

CHAPTER 3



PEAK CHINA?

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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

Introduction

China's meteoric rise reshaped the global order—but has it already crested?¹ Once heralded as an unstoppable challenger to U.S. preeminence, the Chinese Communist Party (CCP)

now finds itself navigating economic stagnation, demographic decline, and growing strategic overreach. At home, shrinking growth and rising debt challenge the party's claim to legitimacy. Abroad, its assertiveness faces growing pushback and diminishing returns.

This chapter examines whether China is entering a period of strategic plateau—or even relative decline—and what that means for global stability. Anchored in power transition theory, it traces the evolution of China's economic and military instruments of power, dissects the headwinds confronting Beijing, and explores the strategic risks a peaking China may pose.

Rather than stabilizing into multipolarity, China's internal contradictions may increase the risk of external confrontation. For the United States and its allies, the imperative is clear: deter, posture, and prepare—not for a rising China, but a reactive one.

Setting the Stage: Understanding China's Rise and the Rules of Power

Before assessing whether China has peaked, it is essential to clarify how we define national ascent and decline. What distinguishes a rising power from a great power? How do nations accumulate and wield power? And to what point can we say a nation has plateaued or entered decline?

Power, in strategic terms, is not a monolith but a composite of instruments. The U.S. Joint Doctrine on Strategy identifies the traditional DIME levers—diplomatic, information,

military, and economic—as the core tools of national power. A broader framework, MIDFIELD, adds finance, intelligence, law, and development,² capturing a fuller spectrum of statecraft in the 21st century.

Among these instruments, economic strength is foundational. It enables investment in defense, sustains diplomacy, and supports information and legal systems.³ A robust economy grants states the flexibility to project influence, resist coercion, and shape global rules.⁴

China exemplifies this interconnected approach. It has pursued growth through a state-led model that fuses centralized control with market incentives. The Ministry of Finance and the People's Bank of China shape fiscal and monetary policy. The Central Propaganda Department and State Council Information Office curate narratives to reinforce CCP legitimacy. Simultaneously, the Ministry of National Defense oversees the steady modernization of the People's Liberation Army (PLA), projecting strength to secure economic interests and regional influence.

Understanding how China integrates these instruments is critical to evaluating its trajectory. The sections that follow trace the evolution of China's economic and military power, identifying the structural drivers of its rise and the headwinds that now threaten to stall—or reverse—its ascent.

Rising Powers and Revisionist States: The Case of China

In *Why Nations Rise*, Manjari Chatterjee Miller identifies two key conditions that underpin power transitions in international

relations:⁵

1. *Relative Power Gains*: A rising power must significantly close the gap in economic and military capability with the dominant power.
2. *Revisionist Ambitions*: Rising powers often seek to reshape the international order to better reflect their interests and values.

Miller defines a rising power as a state gaining relative capability, expanding its global presence, and gaining recognition as a future global.⁶

By these measures, China has clearly risen. Its economy has become the second largest in the world. Its military has modernized rapidly. Its ambition spans continents, most notably through the Belt and Road Initiative (BRI)—a sprawling network of infrastructure projects and financial deals across Asia, Africa, and Europe aimed at deepening China’s economic reach and strategic influence.

The U.S. National Security Strategy mirrors Miller’s framework, explicitly designating China as a revisionist power.⁷ This view underscores the geopolitical stakes: a China that continues to rise may upend the existing order, while a China in decline may lash out to preserve internal cohesion.

Defining “Peak”: Power Plateaus and Strategic Uncertainty

What does it mean for a nation to peak?

Peaking refers to reaching the apex of relative power—after which a state either plateaus or declines in influence. It is easier to identify in hindsight, as with the ancient empires of Greece, Rome, or Persia. But recognizing it in real time—amid contradictory data and political opacity—is far more difficult.

Alex Vuving argues that relative trends, not absolute numbers, are key indicators.⁸ A nation may continue growing in absolute GDP or military size, yet still decline in strategic relevance if others grow faster, more efficiently, or more innovatively.

This perspective is vital in analyzing China. While its absolute capabilities remain formidable, its relative trajectory is increasingly constrained. Slowing growth, rising debt, demographic headwinds, and international backlash suggest that China may be approaching—if not already at—its peak.

The next sections will assess these constraints in detail, beginning with China’s economic engines and extending into its military modernization and strategic posture.

Economic Lift and Load: The Engines of China’s Ascent

National power rests on economic strength. For China, economic modernization has been the primary driver of global rise, fueling military expansion, diplomatic outreach, and domestic legitimacy. From Deng Xiaoping’s reforms to China’s 2001 accession to the World Trade Organization, the CCP’s strategy has centered on rapid, export-led growth, and it has delivered unprecedented gains.

Yet the very engines that lifted China's economy now show signs of strain. As China attempts to shift from a growth model built on cheap labor and debt-driven infrastructure toward one driven by innovation and consumption,⁹ structural headwinds are mounting. To understand whether China is peaking, we must assess its four foundational economic factors: land, labor, capital, and entrepreneurship.¹⁰

Land: Abundance and Constraint

China's geography is a source of both advantage and constraint. It possesses critical resources—rare earths, coal, hydropower, and arable land—yet faces acute limits. Water scarcity, pollution, and declining farmland challenge both agricultural output and public health.¹¹ While the United States benefits from protective oceans and favorable land-to-population ratios,¹² China's long land borders necessitate significant defense outlays, drawing resources from other sectors. Moreover, China remains heavily reliant on imports for key commodities like oil, copper, steel, and advanced machinery.¹³ This external dependence creates supply chain vulnerabilities, exposed starkly by recent global disruptions.

Labor: Demographic Momentum Reversed

China's demographic dividend has reversed. The same labor force that powered its rise is now shrinking. The one-child policy, urbanization, and rising living costs have sharply reduced birth rates. As India surpasses China in total population, China faces a future marked by labor shortages, an

aging society, and rising dependency ratios. Unlike the United States, which mitigates demographic decline through immigration, China's ethnic homogeneity and restrictive immigration policies offer little relief. Optimists point to automation and AI as potential offsets,¹⁴ but even domestic scholars acknowledge the likely consequences: declining consumption, economic contraction, and diminished national power.¹⁵

Capital: Fueled Growth, Hidden Risk

China's growth has been capital-intensive, driven by high savings rates, suppressed wages, and massive public investment. But these policies have created severe imbalances. Local governments and state-owned enterprises carry enormous debt. Infrastructure overbuilding, speculative real estate markets, and opaque accounting practices hide systemic risks. Economist Michael Pettis warns that much of China's investment has yielded unproductive assets misclassified as growth.¹⁶ Evergrande's collapse and the broader property crisis signal a reckoning. The mismatch between investment returns and debt obligations threatens financial stability and limits the CCP's ability to stimulate further growth without triggering inflation or capital flight.¹⁷

Entrepreneurship: Promises Under Pressure

China aspires to move up the value chain—shifting from labor-intensive production toward high-tech innovation. In recent years, Chinese startups have flourished,¹⁸ particularly

in fintech, e-commerce, and AI. Young entrepreneurs increasingly embrace risk,¹⁹ and China is competing globally in sectors like electric vehicles and green tech. Yet innovation struggles under authoritarian constraints. Beijing's crackdown on tech giants and tightening ideological control have chilled investor confidence. As Edward Tse notes, China's entrepreneurial vitality is largely bottom-up—at odds with the CCP's top-down control.²⁰ Without a freer flow of information, capital, and talent, entrepreneurial dynamism may falter—undermining the very innovation needed to counteract labor decline and capital inefficiencies.

Assessing the Trajectory

Viewed through these four lenses, China's economic rise appears increasingly burdened. Resource constraints, demographic decay, financial fragility, and overcentralized control combine to dim the prospects of sustained ascent.

With economic vulnerabilities mounting, the CCP may turn increasingly to its other lever of national power: military modernization. Yet this pivot is not without risk. Defense expansion requires financial and human capital, and it raises regional tensions at a time when China's margin for error is narrowing. As China's economic ascent slows, its military trajectory—and how it is wielded—will play a critical role in determining whether Beijing can sustain its strategic ambitions or overreach under pressure.

Steel and Signals: China's Military Ambitions Under Strain

The CCP has long viewed military power as essential to national rejuvenation. Informed by past humiliations and inspired by modern U.S. warfighting dominance, the PLA has undergone a dramatic transformation. This modernization—accelerated since the late 1990s—was shaped by two pivotal events: the U.S. military's swift victory in the Gulf War and Beijing's sense of vulnerability during the 1995-96 Taiwan Strait Crisis, when American aircraft carriers sailed unchallenged near Chinese waters.²¹

Those episodes reinforced a critical lesson for leadership: economic rise without military credibility leaves China vulnerable. Since then, the PLA has pursued a focused buildup designed not just to defend China's sovereignty but to project power, deter intervention, and challenge U.S. influence in the Indo-Pacific.

Capability Leap: From Legacy Force to Precision Deterrent

Over the past two decades, China has increased its defense spending tenfold,²² with consistent annual growth well above inflation.²³ While official defense budgets often understate total expenditures, the trajectory is unmistakable. The PLA has shifted from a bloated, manpower-heavy legacy force to a more agile, high-tech military emphasizing precision fires, cyber and space capabilities, and strategic enablers.

A core feature of this modernization is China's investment in anti-access/area denial (A2/AD) capabilities. This layered strategy—including long-range missile systems, integrated air defense, electronic warfare, and undersea platforms—is designed to raise the cost of U.S. intervention, especially in a Taiwan contingency or a South China Sea crisis.

Wargames conducted by RAND and CSIS consistently show that China could inflict serious losses in a short, high-intensity conflict near its periphery.²⁴ While China does not yet possess global power projection comparable to the United States, it has significantly shifted the regional balance—especially within the First Island Chain.²⁵

The Burden of Strategic Overreach

Yet modernization comes with steep costs. Sustaining dual-capability growth—economic and military—is increasingly difficult as fiscal space narrows. China's economic slowdown limits future defense spending increases, especially as domestic needs like pensions,²⁶ healthcare, and social stability consume more of the national budget.²⁷

Moreover, China's security obligations are expanding.²⁸ The PLA is expected not only to deter Taiwan and push back U.S. forces, but also to manage potential crises along its borders with India, Russia, and North Korea. The PLA Navy faces growing pressure to secure China's maritime interests,²⁹ including far-flung fishing fleets and critical trade routes across the Indian Ocean.

This growing burden—compounded by global expectations of great power status—raises the risk of overextension. Unlike the United States, China lacks a network of *trusted* allies to share defense burdens or base access. Without external anchors, the sustainability of China’s military reach remains fragile.

People Problems: Talent, Training, and Trust

As platforms and systems grow more complex, China faces a persistent challenge: human capital.³⁰ Recruiting, training, and retaining a technically proficient force is difficult in a society with an aging population and rising affluence. While China has introduced incentives for college graduates and invested in military education, the PLA still grapples with readiness gaps.³¹

Morale and loyalty are also concerns. Corruption, factionalism, and political purges have left scars. Xi Jinping’s sweeping anti-corruption campaign has removed many senior officers,³² improving accountability but also deepening mistrust within the ranks.³³ Promotion now hinges as much on political loyalty as on merit.

Further, Beijing’s insistence on tight party control over the military curtails autonomy at the tactical level—a liability in modern, fast-paced combat environments where decentralized decision-making is essential.

Taiwan and the Test of Credibility

Taiwan remains the central test of the PLA's modernization—and the CCP's political will. A successful invasion would require a complex, large-scale amphibious operation across the Taiwan Strait, likely under fire from defending forces and with the risk of U.S. and allied intervention.

Despite years of buildup, such a campaign would be fraught with risk. Analysts compare it to the Normandy landings in complexity.³⁴ A failed operation could destabilize the CCP and permanently alter regional alignments. For now, the PLA focuses on gray-zone pressure: airspace incursions, cyberattacks, disinformation, and blockade rehearsals—all designed to wear down Taiwan without firing a shot.

Signals of Strategic Intent

China's military evolution sends a clear message: the PLA is no longer just a territorial defense force. It is becoming a tool for shaping the strategic environment—deterring adversaries, reassuring partners, and reinforcing China's global posture. But whether it can deliver on these ambitions without provoking confrontation or exhausting its resources remains uncertain.

As China's economic growth plateaus, its reliance on hard power may increase. Yet a brittle economy, limited alliances, and persistent institutional weaknesses constrain how far this strategy can go. The real test is not modernization, but how

China applies military power amid mounting internal and external pressures.

Crossroads of Power: China's Strategic Paths Forward

As China's ascent slows, the CCP faces a narrowing set of strategic options. Internally, the economic model that delivered four decades of growth is under strain. Externally, expectations of global leadership outpace capacity. Historically, great powers at such inflection points have responded in three ways: internal reform, collapse, or external mobilization.³⁵ Each path carries profound implications—not only for China, but for global stability.

Scenario One: Systemic Collapse

While unlikely in the near term, the collapse of CCP rule cannot be entirely discounted. Prolonged economic stagnation, rising inequality, and eroding public trust could overwhelm the regime's capacity for control. The 2022–2023 anti-lockdown protests revealed surprising public defiance—even breaching China's digital censorship apparatus.³⁶ Although quickly contained, these demonstrations hinted at deeper frustration.

Yet collapse would not be a clean break. No institutional alternative stands ready to govern 1.4 billion people or manage a vast nuclear arsenal. The fall of the Soviet Union offers a cautionary parallel—but with far greater risk. A fractured China could trigger regional disorder, refugee flows, and the emergence of nationalist or militarized factions.

While this scenario remains low probability, its stakes demand contingency thinking—especially regarding nuclear stewardship, maritime security, and the risk of miscalculation in a leaderless vacuum.

Scenario Two: Internal Reform

The more plausible path is strategic adaptation. China has the institutional memory, national pride, and policy tools to recalibrate—though political will remains uncertain. The CCP could gradually pivot from investment-heavy growth to a more sustainable, consumer-driven economy. It could ease restrictions on private enterprise, increase transparency, and restore a more rules-based commercial environment.

However, genuine reform would require rolling back Xi Jinping’s centralization of power—something that would threaten elite interests and the CCP’s ideological hold.³⁷ Since 2012, Xi has recast the Party as the singular guardian of national destiny. This has reduced bureaucratic flexibility and stifled policy experimentation. Reform, if it comes, would likely be incremental and highly controlled.

Still, the potential for a managed “soft landing” cannot be dismissed. Former U.S. Treasury Secretary Janet Yellen has noted that “China’s growth need not come at the expense of America’s leadership.”³⁸ Strategic patience, targeted engagement, and support for structural reform—especially in trade, tech standards, and debt governance—could steer China toward a less confrontational path.

Scenario Three: Nationalist Mobilization

The most dangerous but perhaps most likely response is external diversion. As internal pressures grow, the CCP may double down on nationalism to preserve its legitimacy. This playbook is familiar: assert claims in the South China Sea, tighten the ring around Taiwan, escalate maritime disputes, or frame foreign tech restrictions as Western containment.

Rallying the public against a perceived external threat allows the Party to shift blame, consolidate control, and justify tightened repression. It also increases the risk of strategic miscalculation. Manufactured crises can spiral beyond their intended political use, especially in crowded maritime zones or cyber domains with unclear rules of engagement.

This scenario demands vigilance. Deterrence—not provocation—must guide U.S. and allied posture.³⁹ Strategic signaling, resilience-building, and proactive risk reduction will be key to managing escalation without conceding principles or space.

A Fork in the Road

China's uncertain trajectory presents no single outcome, but a range of unstable equilibria. The CCP may wobble between reform and repression, restraint and escalation. The role of external actors—particularly the United States and its allies—will be critical in shaping incentives, deterring coercion, and encouraging course correction.

The next section will turn to these global implications. What are the risks if China chooses confrontation over reform? And how should the United States structure its alliances, posture, and strategy to prepare for a more volatile era of Chinese behavior?

Global Implications: Strategic Risk in a Peaking China Era

This era of compressed Chinese power presents acute risks that demand more than observation—they require strategic recalibration. The world has spent the past two decades preparing for China’s rise. It must now prepare for the risks of China’s plateau. A peaking power under internal strain can be more volatile than a rising one.⁴⁰ As the Chinese Communist Party navigates economic deceleration, demographic contraction, and growing strategic friction, the risk of coercive or escalatory behavior increases—particularly in contested regions like the Taiwan Strait, South China Sea, and along China’s periphery.

Flashpoints and Force Posture

The most immediate risk lies in gray-zone provocations that escalate into conflict.⁴¹ Beijing will use maritime militia, cyber operations, or economic coercion to test boundaries and set conditions for a posture advantage and a fait accompli. However, fishing rights disputes, semiconductor choke points, or debt-related unrest in BRI partner states could become the spark for regional instability.

The PLA Navy's expanded presence in the South China Sea and Western Pacific reflects a more assertive posture aimed at defending these interests.⁴² This includes escorting fishing fleets, probing U.S. and allied maritime operations, and increasing pressure on Taiwan. The risk of accidental clashes or intentional shows of force misread as aggression is rising.

The United States must respond with purposeful posture that is credible, survivable, and proximate. The Indo-Pacific is no longer a theater of future planning—it is the center of strategic gravity.⁴³ As China relies more on hard power, the credibility of U.S. deterrence and the cohesion of allied coalitions will be tested.

Debt Diplomacy and Destabilization Risks

China's overseas lending—once seen as a soft power tool—now risks triggering systemic instability. Nations like Sri Lanka, Laos, and Pakistan face mounting debt burdens that could lead to defaults, unrest, or proxy confrontations. Beijing itself faces a dilemma: restructure loans, absorb losses, or enforce payment through influence—each with reputational and strategic costs.

The United States must prepare for these ripple effects, particularly across the Global South. Defaults could drive humanitarian crises, migration, and economic disorder, requiring agile diplomatic, development, and defense responses.

Preparing for Post-Peak Competition

China's future may not lie in conquest, but in coercion under constraint. The strategic challenge is not a head-on clash with a rising peer but managing the dangers of a slowing one with shrinking options and heightened insecurity. Preparation must extend beyond the present—anticipating a world where disorder, disinformation, and coercive leverage replace overt confrontation.

The final section offers a set of strategic recommendations for U.S. policymakers to confront this new reality and posture for long-term advantage in an era defined not by China's rise, but by its response to decline.

Strategic Priorities: Operating in the Compression Zone

As China confronts economic strain, demographic decline, and strategic overreach, its leadership may become more brittle, not more restrained. This is not a moment of power transition—but a moment of power compression. A peaking China, constrained by internal limits and external resistance, may seek advantage through risk. The United States must be prepared—not only to deter escalation, but also to shape Beijing's response to its decline. The following six priorities should anchor U.S. strategy in the years ahead:

1. Forge Credible Forward Deterrence

Build an integrated Indo-Pacific deterrence network through persistent forward presence, shared basing,

joint exercises, and regional burden-sharing—especially with Japan, Australia, the Philippines, India, Taiwan, and capable ASEAN states. Intent to confront a violent China must be unambiguous. Implement the Prioritization Imperative⁴⁴ while investing in long-range precision fires, undersea warfare, SOF-enabled irregular deterrence, and resilient command and control. Proximity matters.

2. Exploit Economic and Informational Asymmetries

Leverage technology controls, financial tools, and strategic messaging to erode CCP confidence and expose corruption, coercion, and contradictions. Economy and mass are decisive in large-scale combat operations; the U.S. must secure advantage while degrading CCP coercive capacity.

3. Institutionalize China Monitoring and Red Teaming

Establish interagency and academic networks to track Chinese internal dynamics—economic, political, and military. Invest in large language models and real-time narrative intelligence to expand decision space and anticipate risk.

4. Prepare for BRI Fallout and Destabilization

Anticipate second-order effects from BRI stress fractures—defaults, social unrest, and proxy instability. Posture military, humanitarian, and development resources to respond to cascading crises across the Global South.

5. Encourage Reform while Demonstrating Strength

Discreetly support structural reform within China—commercial transparency; legal modernization, and adherence to trade standards—without expecting democratization. Pride is a constraint, and U.S. weakness will be exploited.

6. Leverage European Experience in Conflict Response

Integrate European allies into Indo-Pacific advisory and capacity-building missions. NATO members bring Ukraine war lessons on distributed defense, command integration, and resilience that are highly relevant to the First Island Chain.

Conclusion: Preparing for Strategic Shock

The next decade will reveal China's response to its emerging decline. A brittle power with shrinking options can still be dangerous—but it can also be deterred, dissuaded, and, at times, redirected.

Ultimately, China may lean harder on coercion and nationalism to compensate for internal fragility. The United States must reinforce credibility, cohesion, and readiness within its alliances while denying Beijing easy opportunities for escalation.

The challenge ahead is not to contain a rising China—but to withstand and shape the behavior of a constrained, reactive

one. Strategic clarity—and a coalition prepared for turbulence—will be key to avoiding dangerous descent.

Endnotes

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- ⁴¹ Benjamin Jensen, Bonny Lin, and Carolina G. Ramos, “Shadow Risk: What Crisis Simulations Reveal About the Dangers of Deferring U.S. Responses to China’s Gray Zone Campaign Against Taiwan,” *CSIS*, February 16, 2022, <https://www.csis.org/analysis/shadow-risk-what-crisis-simulations-reveal-about-dangers-deferring-us-responses-chinas>.
- ⁴² Center for Preventive Action, “Territorial Disputes in the South China Sea,” *Council on Foreign Relations*, Updated September 17, 2024, <https://www.cfr.org/global-conflict-tracker/conflict/territorial-disputes-south-china-sea>.
- ⁴³ Velez-Green, Alex and Robert Peters “The Prioritization Imperative: A Strategy to Defend America’s Interests in a More Dangerous World”, August 1, 2024, <https://www.heritage.org/defense/report/the-prioritization-imperative-strategy-defend-americas-interests-more-dangerous>.
- ⁴⁴ Velez-Green, Alex and Robert Peters “The Prioritization Imperative.”